VISION: Journal of Indian Taxation
Volume 11, Issue 2, Jul-Dec 2024, pp. 1-26
DOI: 10.17492/jpi.vision.v11i2.1122401
www.journalpressindia.com/vjit

Effectiveness of Tax Incentives in Promoting Foreign Direct Investment in India

Vikas Kumar and Kulbhushan Chandel***

ABSTRACT

This study explores how tax incentives promote FDI in India. FDI drives economic growth by providing capital, technology, and jobs. Tax incentives are used by governments worldwide to attract foreign investors, although their impact on FDI is unclear. This study's objective is to assess how well the Indian government's tax incentives have encouraged foreign direct investment. The study employs a descriptive research design to examine secondary data derived from official papers, international organisations, and scholarly journals. Tax incentives are one aspect that attracts foreign direct investment (FDI), but other factors like political stability, market size, and infrastructure quality also play a role, according to the findings. Comparative analysis with other emerging economies reveals that India's tax incentives are competitive but need to be part of a broader, more comprehensive policy framework to maximise their impact. The study concludes with policy recommendations aimed at optimising tax incentives to enhance FDI inflows, thereby contributing to India's economic growth and development.

Keywords: *Foreign Direct Investment; Tax incentives; India; Economic growth; Policy effectiveness.*

1.0 Introduction

Global economic integration relies on Foreign Direct Investment (FDI) to move capital, technology, and management experience between countries (UNCTAD, 2022). It significantly impacts economic growth, especially in developing nations, by increasing efficiency, generating employment opportunities, and improving connectivity to global markets (OECD, 2023a).

**Corresponding author; Ph.D. Research Scholar, Department of Commerce, Himachal Pradesh University, Shimla, Himachal Pradesh, India (E-mail: kumarvikas.hp94@gmail.com)*
***Professor, Department of Commerce, Himachal Pradesh University, Shimla, Himachal Pradesh, India (E-mail: kulbhushanchandel@gmail.com)*

In India, FDI has been instrumental in transforming various sectors, including manufacturing, services, and technology, contributing substantially to the country's GDP growth (Reserve Bank of India, 2023). The Indian government has traditionally employed various tax benefits, such as tax holidays, lowered corporate tax rates, and special economic zones (SEZs), in order to entice foreign direct investment (FDI) (Ministry of Finance, 2022). The goal of these reforms is to make the Indian market more attractive to investors and boost investment (NITI Aayog, 2022). Regardless of these endeavours, economists and politicians continue to argue about whether or not tax incentives are beneficial in attracting foreign direct investment (DIPP, 2023).

This research endeavour is aimed at determining whether or not tax incentives are beneficial in attracting foreign direct investment (FDI) in India. When it comes to designing policies that may effectively attract foreign investment and drive economic growth, having a solid understanding of this relationship is necessary (World Bank, 2024). This study intends to shed light on how tax incentives might be improved to increase their efficiency by analysing their impact on FDI inflows. Tax incentives are often considered a double-edged sword; while they can attract foreign investors, they can also lead to revenue loss for the government if not implemented strategically (IMF, 2022). Therefore, it is important to assess whether the benefits of increased FDI outweigh the costs associated with these incentives (OECD, 2023a).

1.1 Research inquiries

The following research inquiries are addressed by this study:

- What types of tax incentives are currently offered by the Indian government to attract FDI?
- How effective have these tax incentives been in increasing FDI inflows into India?
- What are the key factors that influence the efficacy of tax incentives in attracting FDI?
- How does the effectiveness of India's tax incentives compare with those of other emerging economies?

1.2 Layout of the manuscript

The paper is structured as follows:

- Introduction: Foreign direct investment (FDI) and its importance are introduced in this section, along with the study's goals, research questions, and paper outline.
- Literature Review: This section discusses the theoretical framework and summarises key findings from existing research on the impact of tax incentives on FDI.
- Methodology: This section provides a concise summary of the study's methodology, encompassing its research design, techniques for collecting data, and procedures for analysing the data.
- Analysis and Findings: An in-depth examination of India's tax incentives, FDI inflow trends, and the effects of these incentives on FDI are presented in this section.

- Discussion: This section interprets the findings, highlights policy implications, and addresses the limitations of the study.
- Conclusion: This section summarises the key findings and contributions to knowledge and provides recommendations for policymakers and practitioners.

2.0 Review of Existing Literature

2.1 Theoretical framework

The notion of Foreign Direct Investment (FDI) has undergone substantial evolution in recent decades. The eclectic paradigm, alternatively referred to as the OLI (Ownership, Location, Internalisation) framework, was introduced by Dunning in 1988 and continues to be one of the most significant theories elucidating Foreign Direct Investment (FDI). According to this framework, companies invest in foreign countries to take advantage of their unique ownership-specific benefits, location-specific benefits, and internalisation benefits (Dunning, 1988). Tax incentives, as a part of location-specific advantages, are critical in influencing multinational enterprises (MNEs) decisions on where to invest (Blomström *et al.*, 2003).

The investment development path (IDP) theory further elaborates on how countries evolve in their attractiveness to FDI, influenced by economic development and government policies, including tax incentives (Narula & Dunning, 2010). Recent studies have incorporated institutional theory to understand the impact of governance quality and institutional frameworks on FDI flows (Meyer & Peng, 2016). Institutional theory posits that well-designed tax incentives can significantly enhance the attractiveness of a country by reducing the risks and uncertainties associated with investment (North, 1990). Recent analyses by Sabir *et al.* (2019) support this view, showing that institutional quality significantly impacts FDI inflows, with tax incentives acting as a complementary factor.

2.2 Recent empirical evidence on tax incentives and FDI

Numerous empirical investigations have investigated how FDI was affected by tax incentives, specifically in developing nations. A study conducted by Ambrosio (2020) discovered that tax incentives, such as tax vacations and reduced corporate tax rates, have a substantial positive impact on foreign direct investment (FDI) inflows in African countries. Similarly, Zolt (2015) highlighted that while tax incentives can attract FDI, their effectiveness varies greatly depending on the overall investment climate of the host country. In the context of India, Aggarwal (2019) conducted a study to examine the effects of SEZs and determined that they have effectively attracted FDI, specifically in the manufacturing industry.

Another study by Nuţă & Nuță (2012) revealed that tax incentives in India have a positive but limited impact on FDI inflows, suggesting that other factors, such as infrastructure and political stability, play a more crucial role. Comparative studies have shown that India's tax incentives are competitive but could be more effective if accompanied by improvements in regulatory frameworks and ease of doing business (Kandpal & Kavidayal, 2014). In addition, studies conducted by the OECD (2023a) show that tax incentives work best when included in a larger policy package aimed at attracting foreign direct investment (FDI).

2.3 Positive impact of tax incentives

Parys (2012) analysed the impact of tax incentives in developing nations and discovered that targeted tax policies, such as tax holidays and exemptions, can lead to substantial increases in FDI, especially when aligned with broader economic reforms. His study suggests that while tax incentives are not the sole determinant, they can greatly improve a nation's attractiveness to foreign investors. Similarly, a study by Mohammed (2023) found that emerging economies that strategically use tax incentives alongside improvements in infrastructure and ease of doing business tend to attract higher FDI inflows. They emphasise that the synergy between fiscal incentives and economic fundamentals is crucial for maximising the benefits of FDI.

2.4 Criticisms of tax incentives

Several studies have shown that tax incentives are often overstated in their impact. Blonigen & Piger (2014) assert that while tax incentives can attract FDI, their effectiveness is often limited by other factors such as political stability, market size, and labour costs. Excessive dependence on tax incentives, they say, might cause a "race to the bottom," in which nations drastically reduce taxes, reducing public revenues and failing to boost investment. Klemm & Parys (2009) also highlight the potential downsides of tax incentives, noting that poorly designed incentives can lead to economic distortions and inefficiencies. Their study calls for a more balanced approach, where tax incentives are part of a comprehensive strategy that includes improvements in regulatory efficiency and institutional quality.

2.5 Tax incentives and FDI in India

India's approach to attracting FDI through tax incentives has been extensively studied, particularly in the context of its economic reforms. The introduction of Special Economic Zones (SEZs) and other fiscal measures has played a significant role in shaping India's FDI landscape. Recent studies, such as those by Aggarwal (2019), have explored the impact of SEZs in attracting FDI to India. Their findings indicate that SEZs have been successful in boosting manufacturing and export-oriented investments, but their effectiveness is highly dependent on complementary policies, such as infrastructure development and ease of doing business. The "Make in India" initiative has further enhanced these efforts by offering additional tax incentives and improving the regulatory environment (Chakraborty & Nunnenkamp, 2008).

2.6 Sectoral analysis

The technology and telecommunications sectors in India have been significant beneficiaries of tax incentives. Bose (2012) examined how tax credits and incentives for research and development (R&D) have attracted tech giants to India, fostering innovation and technological advancements. Similarly, the Goods and Services Tax (GST) has reduced the costs associated with following regulatory requirements and simplified the tax structure, leading to an increase in foreign investments in the financial services business (OECD, 2023).

2.7 Global comparative studies

Comparative analyses of tax incentives across countries provide valuable insights into best practices and potential pitfalls. The OECD (2023) conducted a study comparing tax incentives in emerging economies and found that countries aligning their tax policies with global standards and enhancing regulatory efficiency tend to attract higher FDI inflows. This finding aligns with the World Investment Report by UNCTAD (2022), which highlights the importance of policy stability and transparency in fostering investor confidence. A recent study by Demirhan & Masca (2008) emphasised the growing role of digitalisation and technological advancements in attracting FDI. They argued that countries investing in digital infrastructure and offering R&D tax credits are more likely to attract tech-driven FDI, particularly in knowledge-based sectors.

Table 1 summarises studies on tax incentives and FDI, showing that tax incentives significantly boost FDI when combined with infrastructure and regulatory improvements (Nguyen & Nguyen, 2023). Tax incentives are more effective in developing countries (Blonigen & Piger, 2014) and enhance FDI as part of a broader economic strategy (Parys, 2012). However, they can cause economic distortions if not aligned with broader policies (Klemm & Parys, 2009). Aggarwal (2019) highlights the success of SEZs in India, while Bose (2012) emphasises R&D incentives in attracting tech firms. Strong institutions improve tax incentives' effectiveness, and digital infrastructure boosts FDI, especially in tech sectors (Demirhan & Masca, 2008). UNCTAD (2022) argues that digitalisation and tax incentives drive FDI in global value chains, and OECD (2023) stresses aligning tax policies with global standards to increase FDI inflows.

2.8 Research gaps in the existing literature

Although there has been significant research conducted regarding the correlation between tax incentives and foreign direct investment (FDI), there are still numerous areas that have not been fully explored or understood. First, there is a lack of comprehensive knowledge regarding the lasting effects of tax incentives on the promotion of sustainable economic development. Most studies focus on immediate FDI inflows without considering whether these investments lead to sustained economic growth and development (Ambrosio, 2020).

Table 1: Recent Literature on Tax Incentives and FDI

Author(s) and Year	Study Focus	Methodology	Key Findings
(Nguyen & Nguyen, 2023)	Impact of tax incentives on FDI in emerging economies	Cross-country econometric analysis	Tax incentives significantly increase FDI inflows when combined with improvements in infrastructure and regulatory efficiency.
(Blonigen & Piger, 2014)	Role of tax incentives in developed vs. developing nations	Comparative analysis of OECD and non-OECD countries	Tax incentives are particularly efficacious in developing nations, as they assist in mitigating the elevated risks present but are less impactful in developed economies where market factors dominate.
(James, 2013)	Tax and Non-Tax Incentives	Meta-Analysis	Concluded that well-designed tax incentives can enhance FDI inflows, especially when part of a comprehensive economic strategy, but are not a panacea for economic growth.
(Chakraborty & Basu, 2002)	FDI and Growth in India	Co-integration Approach	Developed a strong link between FDI and India's GDP growth, highlighting the need for policy changes to entice investing from abroad.
(Görg & Greenaway, 2004)	FDI Benefits and Spillovers	Cross-Country Comparison	Analysed the benefits and spillovers of FDI, finding significant positive impacts on domestic firms, particularly in developing countries with supportive economic policies.
(Zee *et al.*, 2002)	Tax Incentives for Business Investment	Theoretical and Empirical Analysis	Highlighted the complexity of designing effective tax incentives, emphasising the need for careful evaluation to balance benefits and potential revenue losses.
(Morisset & Pirnia, 2000)	Impact of Tax Policies on FDI	Policy Review	Provided a comprehensive review of how tax policies affect FDI, suggesting that incentives must be transparent and stable to effectively attract long-term investments.
(Desai *et al.*, 2006)	Taxation and Multinational Activity	Econometric Analysis	Analysed how tax policies impact multinational corporations' decisions on where to invest, finding that lower tax rates significantly boost FDI inflows in competitive markets.
(Feld & Heckemeyer, 2011)	FDI and Taxation: A Meta-Study	Meta-Regression Analysis	Results showed that tax incentives indeed have an impact on foreign direct investment (FDI), but the size of that impact differs greatly between areas and industries.
(Hajkova *et al.*, 2007)	Taxation and Investment Incentives in Europe	Panel Data Analysis	Found significant variation in the effectiveness of tax incentives across European countries, emphasising the importance of aligning incentives with national economic goals.

(Smarzynska, 2002)	Productivity Spillovers from FDI	Firm-Level Data Analysis	Provided empirical evidence of positive productivity spillovers from FDI, particularly in sectors with strong backward linkages.
(Dharmapala, 2014)	Foreign Direct Investment and Corporate Taxes	Literature Review and Empirical Analysis	Assessed the impact of corporate taxes on FDI, finding that competitive tax rates are crucial in attracting multinational enterprises.
(Parys, 2012)	A global perspective on tax incentives	Meta-analysis of existing literature	Well-designed tax incentives can enhance FDI inflows, especially when part of a comprehensive economic strategy, but are not a panacea for economic growth.
(Klemm & Parys, 2009)	Effects of tax incentives on FDI efficiency	Panel data analysis of 30 developing countries	Tax incentives can lead to increased FDI but often result in economic distortions if not aligned with broader economic policies.
(Aggarwal, 2019)	Special Economic Zones (SEZs) in India	Case study and statistical analysis of SEZ performance	SEZs have helped bring foreign direct investment (FDI) to India, especially in the industrial sector, but their continued performance is dependent on stable infrastructure and government policies.
(Bose, 2012)	R&D tax incentives and FDI in technology	Sectoral analysis and interviews with industry stakeholders	R&D tax incentives have successfully attracted tech companies to India, fostering innovation and contributing to the digital economy.
(Demirhan & Masca, 2008)	Digital infrastructure's role in attracting FDI	Empirical study across 50 countries	Investment in digital infrastructure, alongside tax incentives, significantly boosts FDI, especially in high-tech industries.
(UNCTAD, 2022)	Digitalisation in global value chains	Analysis of FDI trends in relation to digitalisation efforts	Digitalisation efforts, supported by targeted tax incentives, drive FDI in sectors connected to global value chains, enhancing competitive advantages.
OECD (2023)	FDI trends and tax policies	Global data analysis from OECD databases	Countries that align tax policies with global standards see higher FDI inflows; policy stability and transparency are critical for investor confidence.

Source: Authors' compilation

Second, there is a dearth of in-depth studies that assess the efficacy of various tax incentives across diverse sectors in a single country, like India, despite the abundance of literature on the topic of the capacity of tax incentives to attract foreign direct investment (FDI) to developing nations (UNCTAD, 2022). Lastly, there is a need for more research on the role of institutional quality in moderating the effectiveness of tax incentives. Although institutional theory suggests that good governance can enhance the attractiveness of tax incentives, empirical studies in this area are scarce (Meyer & Peng, 2016).

3.0 Methodology

3.1 Research design

To determine if tax incentives were successful in luring Foreign Direct Investment (FDI) to India, this study used a descriptive research strategy. This study's descriptive research design is well-suited for analysing and describing the correlation between tax incentives and foreign direct investment (FDI) inflows in great detail (Creswell *et al.*, 2007). In order to provide a thorough and accurate evaluation of the subject, the research relies on secondary data gathered from multiple reliable sources.

3.2 Data collection and analysis

The data collection for this study entails the compilation of secondary data from several trustworthy sources, such as government reports, international organisations, academic publications, and statistics databases. The data is obtained from the Ministry of Finance, Department for Promotion of Industry and Internal Trade (DPIIT) and the Reserve Bank of India (RBI), which collaborate with international institutions such as the United Nations Conference on Trade and Development (UNCTAD), the World Bank, and the Organisation for Economic Co-operation and Development (OECD). Academic publications offer theoretical and empirical knowledge, while internet databases like the World Bank's World Development Indicators and OECD's I Library give quantitative data on foreign direct investment (FDI) inflows and tax rates.

The data analysis entails using descriptive statistics to provide a summary of foreign direct investment (FDI) inflows and tax incentives. It also involves trend analysis to identify noteworthy changes over time, correlation analysis to evaluate the correlation between tax incentives and foreign direct investment (FDI), multivariate regression analysis to assess the influence of various tax incentives on the inflow of foreign direct investment (FDI) and comparative analysis to compare India's tax incentives with those of other emerging economies. In addition, qualitative content analysis on policy documents and scholarly research allows for a comprehensive understanding of how tax incentives are implemented and their effectiveness.

3.3 Regression equation

To perform the regression analysis, the following equation has been followed, and Table 2 clearly explains the regression coefficients and terms used in this study.

FDI Inflows = $\beta 0$ + $\beta 1$ (Tax Holidays) + $\beta 2$ (SEZs) + $\beta 3$ (Import Duty Exemptions) + $\beta 4$ (R&D Tax Credits) +$\beta 5$ (Infrastructure Quality) + $\beta 6$ (Political Stability) +$\beta 7$ (Ease of Doing Business) + ϵ

Table 2: Explanation of Regression Coefficients and Terms

Symbol	Description
$\beta 0$	**Intercept**, representing the base level of FDI inflows without the influence of any independent variables.
$\beta 1$ (Tax Holidays)	Coefficient for **tax holidays**, indicating how changes in tax holidays affect FDI inflows. A positive value suggests that longer tax holidays are associated with higher FDI inflows.
$\beta 2$ (SEZs)	Coefficient for **Special Economic Zones (SEZs)**, reflecting their impact on FDI. Positive values indicate that the presence of SEZs boosts FDI inflows.
$\beta 3$ (Import Duty Exemptions)	Coefficient for **import duty exemptions**, measuring the influence of reduced import duties on FDI. Positive coefficients suggest that exemptions encourage foreign investment by lowering costs.
$\beta 4$ (R&D Tax Credits)	Coefficient for **R&D tax credits**, showing the effect of tax incentives for research and development on FDI inflows. Positive coefficients indicate that such credits foster innovation and attract investment.
$\beta 5$ (Infrastructure Quality)	Coefficient for **infrastructure quality**, highlighting the role of infrastructure improvements in attracting FDI. Positive coefficients suggest that better infrastructure enhances investment attractiveness.
$\beta 6$ (Political Stability)	Coefficient for **political stability**, indicating how a stable political environment impacts FDI inflows. Positive coefficients imply that stability reduces investment risk and attracts FDI.
$\beta 7$ (Ease of Doing Business)	Coefficient for **ease of doing business**, reflecting how regulatory efficiency and business-friendly policies impact FDI inflows. Positive coefficients suggest that a favourable business environment attracts more FDI.
ϵ (Error Term)	**Error term**, capturing the variability in FDI inflows not explained by the independent variables.

Source: Authors' compilation

3.4 Data collection time period

The study investigates tax incentives and FDI inflows in India from 2000 to 2022. This time frame was selected due to significant economic reforms, policy shifts, and global economic trends that have influenced Foreign Direct Investment (FDI) inflows into India and other emerging economies. This timeframe captures the evolution of India's economic landscape, allowing for an in-depth analysis of the impact of tax incentives on FDI inflows over a comprehensive timeline. The early 2000s marked a critical phase in India's economic reforms following the liberalisation efforts of the 1990s, including the dismantling of the License Raj, deregulation of industries, and the opening of sectors to foreign investment, which set the stage for increased FDI inflows (Jana *et al.*, 2019). This period also witnessed the introduction of various tax incentives aimed at attracting FDI, making it essential to analyse the long-term effects of these policies. The period from 2000 to 2022 also encompasses significant global economic events, such as the 2008 financial crisis and subsequent recovery phases, which have profoundly impacted FDI flows worldwide, including India (Auerbach & Gorodnichenko, 2016).

Additionally, the rise of globalisation and the increasing interconnectedness of economies during this period have underscored the importance of competitive tax policies in attracting FDI (Blonigen & Piger, 2014). Furthermore, the 2000s and 2010s saw the introduction and evolution of several key tax incentives in India, including Special Economic Zones (SEZs) and tax holidays, designed to enhance India's attractiveness as an investment destination (Aggarwal, 2019). These policy shifts were part of India's strategic efforts to align with global economic trends and improve its competitiveness in the international market, making the chosen time frame crucial for analysing the interplay between tax incentives and FDI inflows.

3.5 Measurement of variables

The key variables in this study include tax holidays, Special Economic Zones (SEZs), import duty exemptions, and R&D tax credits. Each variable is measured as follows in the Table 3.

Table 3: Measurement of Variables and Data Sources

Factor	Measurement	Data Sources
Tax Holidays	This variable is quantified by the total number of years a company is exempt from paying corporate taxes. Tax holidays often serve as an incentive for companies to invest in specific sectors or regions, allowing them to reduce operational costs during the initial phase of business establishment. The attractiveness of these holidays often depends on the length and scope of the exemption, as longer tax holidays can significantly lower the effective tax rate for investors (Abbas & Klemm, 2013; James, 2013).	Official government tax policy documents and economic surveys.
Special Economic Zones (SEZs)	Measured by the number of operational SEZs within a given time frame and the cumulative investment in these zones. Special Economic Zones (SEZs) are regions with unique trade and economic regulations set aside from the national average. The effectiveness of SEZs in attracting FDI is often measured by the volume of foreign investments and the number of operational enterprises within these zones. The measurement also considers the range of benefits offered, such as tax incentives, reduced tariffs, and improved infrastructure (Aggarwal, 2006; Farole & Akinci, 2011).	DPIIT and SEZ development reports.
Import Duty Exemptions	Quantified by the percentage reduction in import duties applicable to capital goods, reflecting the ease with which businesses can import machinery and raw materials needed for production. Import duty exemptions are critical for industries that rely on imported inputs, as they can significantly reduce the cost of production and enhance competitiveness (World Bank, 2017; WTO, 2019).	Trade and commerce reports by the Ministry of Commerce and Industry.

R&D Tax Credits	Calculated as the percentage of research and development expenses eligible for tax deductions. R&D tax credits aim to encourage innovation by reducing the effective cost of investing in new technologies and processes. The extent of these credits varies by country and often targets specific industries to boost technological advancement and competitive advantage (OECD, 2023b; Warda, 2002).	Fiscal policy documents and Ministry of Finance reports.
Infrastructure Quality	Measured using the Global Infrastructure Index, which assesses the quality and extent of infrastructure investments, including transportation, utilities, and communication systems. High-quality infrastructure reduces logistical costs and enhances productivity, making a region more attractive for FDI (Aschauer, 1989; Calderón & Servén, 2010).	World Bank and OECD reports.
Political Stability	Evaluation based on the World Governance Indicators' Political Stability Index, which gauges public opinion on the relative safety of a country's government and the prevalence or absence of terrorist attacks. This index is crucial for understanding the investment climate, as political instability can deter investors due to increased risks and uncertainties (Kaufmann *et al.*, 2011).	World Governance Indicators.
Ease of Doing Business	Measured using the Ease of Doing Business Index, which evaluates regulatory efficiency and the business environment across economies. This index considers factors such as starting a business, obtaining permits, and enforcing contracts, reflecting how conducive a country is to business operations (World Bank, 2020).	World Bank's Doing Business reports.

Source: Authors' compilation

4.0 Analysis and Findings

4.1 Overview of tax incentives in India

India has enacted a range of tax incentives to entice Foreign Direct Investment (FDI). These measures encompass tax holidays, decreased corporate tax rates, exemptions on import taxes, and the creation of Special Economic Zones (SEZs) (Ministry of Finance, 2022). Tax holidays, typically ranging from 5 to 10 years, allow new businesses to operate without paying corporate taxes during the initial years of operation. Reduced corporate tax rates are offered to specific industries, such as manufacturing and technology, to encourage investment in these sectors (DIPP, 2023). Import duty exemptions are provided to companies importing capital goods for manufacturing purposes, reducing the cost of setting up new production facilities (Reserve Bank of India, 2023). SEZs offer a combination of tax benefits, including income tax exemptions for a certain number of years, to create an investment-friendly environment (Aggarwal, 2019).

4.2 Comparative description of tax incentives

In order to offer a more comprehensive view of the efficacy of tax incentives in India, the following analysis includes a comparison with other advanced and emerging nations, as shown in the Table 4.

Table 4: Comparative Description of Tax Incentives

Country	Tax Incentives Overview
India	India offers a corporate tax rate of 25%, with tax holidays ranging from 5 to 10 years for new businesses. Special Economic Zones (SEZs) provide additional benefits, including income tax exemptions for a specified number of years. Import duty exemptions are available for capital goods, and there are R&D tax credits to encourage innovation. Despite these incentives, India's ease of doing business rank suggests room for improvement in regulatory efficiency and infrastructure.
China	China also has a corporate tax rate of 25%, with shorter tax holidays of 2 to 5 years. SEZs are a significant part of China's strategy to attract FDI, offering extensive tax and infrastructure benefits. Import duty exemptions and R&D tax credits further enhance the investment climate. China's high ease of doing business rank reflects its efficient regulatory framework and robust infrastructure.
Brazil	Brazil imposes a higher corporate tax rate of 34%, with tax holidays typically lasting 5 years. SEZs are used to attract FDI, providing tax and import duty exemptions. R&D tax credits are available, but Brazil's lower ease of doing business rank indicates challenges such as bureaucratic inefficiencies and political risks.
South Africa	South Africa has a corporate tax rate of 28% and offers tax holidays of up to 5 years. SEZs are utilised to attract investment, with various tax incentives and import duty exemptions. R&D tax credits are also offered. However, South Africa's ease of doing business rank suggests that regulatory and infrastructure improvements are needed to enhance its investment appeal.
United States	The United States has a relatively low corporate tax rate of 21% but does not offer tax holidays or SEZs. However, it provides import duty exemptions and substantial R&D tax credits to promote innovation. The high ease of doing business rank reflects a favourable regulatory environment, advanced infrastructure, and a strong legal system that supports business operations.
Germany	Germany offers the lowest corporate tax rate among the compared countries at 15%, but it does not provide tax holidays or SEZs. Import duty exemptions and generous R&D tax credits are available to support business investments and innovation. Germany's high ease of doing business rank is indicative of its efficient regulatory framework, robust infrastructure, and strong legal system.

Source: Authors' compilation

4.3 Trends in FDI in India

FDI inflows into India have shown significant growth over the past decades. According to the Reserve Bank of India (RBI), foreign direct investment (FDI) inflows into India began at approximately $0.13 billion in 1991, rising significantly to about $84.83 billion in 2022, reflecting substantial growth over the period due to various economic reforms and liberalisation policies. The rise can be ascribed to the liberalisation measures implemented in the early 1990s, which facilitated foreign investment in multiple areas (UNCTAD, 2022). The manufacturing sector has experienced significant foreign direct investment (FDI) inflows, mostly due to the 'Make in India' effort, which seeks to convert India into a prominent global manufacturing centre (Kandpal & Kavidayal, 2014). The services sector, particularly information technology and telecommunications, has also attracted significant FDI due to India's skilled workforce and competitive costs (OECD, 2023a).

Table 5: FDI Inflows into India from 1991 to 2022

Year	FDI Inflows (in billion USD)
1991	0.13
1995	2.15
2000	2.34
2005	7.62
2010	24.15
2015	44.21
2020	51.42
2022	84.83

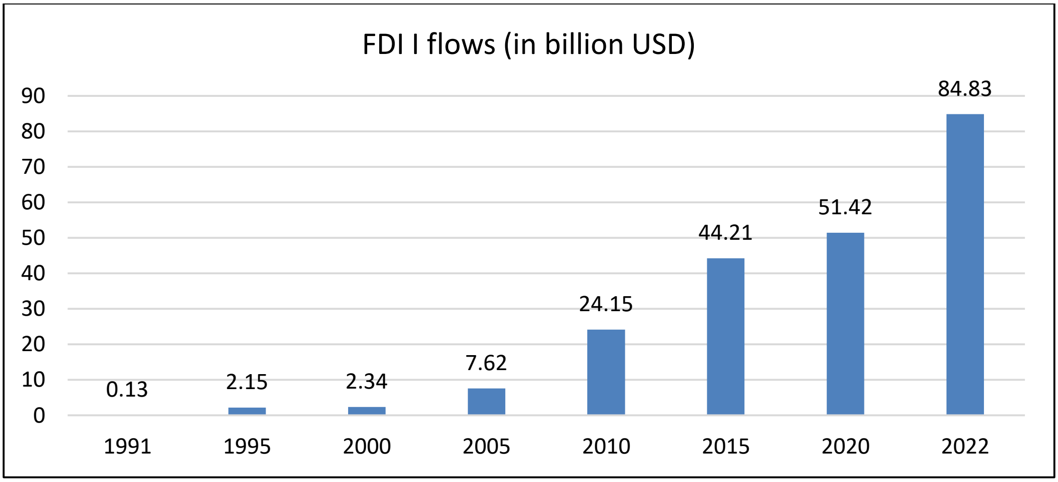
Sources: DPIIT (2023), UNCTAD (2022), Reserve Bank of India (RBI, 2023).

Table 5 displays FDI inflows into India from 1991 to 2022, highlighting significant growth over the decades. In 1991, FDI was $0.13 billion, reflecting the start of economic liberalisation (Kumar, 2002). By 1995, inflows rose to $2.15 billion as reforms took effect (Nayyar, 2017). In 2000, FDI reached $2.34 billion, driven by India's tech sector expansion (Chakraborty & Nunnenkamp, 2008).

The 2005 increase to $7.62 billion was due to further economic reforms (Nath, 2013). In 2010, FDI hit $24.15 billion, showcasing resilience post-global financial crisis. By 2015, FDI was $44.21 billion, fuelled by the "Make in India" initiative (Chakraborty & Nunnenkamp, 2008). Despite COVID-19, 2020 saw $51.42 billion in inflows, reflecting investor confidence. In 2022, FDI peaked at $84.83 billion, driven by digital economy growth (OECD, 2023; DPIIT, 2023).

Figure 1 illustrates the trajectory of FDI inflows into India from 1991 to 2022, highlighting a consistent upward trend over the years. The initial inflows in 1991 were modest, reflecting India's economic policy shift towards liberalisation (Kumar, 2002). The steady increase in FDI from 1995 to 2005 shows the impact of structural reforms and globalisation; this facilitated the integration of the Indian economy with global investors (Nath, 2013; Nayyar, 2017). The sharp rise in 2010 and 2015 indicates India's growing prominence as a preferred investment destination, supported by initiatives like "Make in India" (Chakraborty & Nunnenkamp, 2008). With $51.42 billion in 2020 and $84.83 billion in 2022, Figure 1 demonstrates resilience in the face of global economic disruptions induced by the COVID-19 pandemic. This increase was driven by continuous reforms and an emphasis on digital infrastructure (UNCTAD, 2021; DPIIT, 2023).

Figure 1: Trend of FDI Inflows from 1991 to 2022



Sources: DPIIT (2023), UNCTAD (2022), Reserve Bank of India (RBI, 2023).

4.4 Comparative Analysis of Tax Incentives and Related Indicators

To understand the relative effectiveness of India's tax incentives in attracting FDI, we compared key tax and economic indicators with those of other countries in the Table 6.

Table 6: Comparative Analysis of Tax Incentives and Related Indicators

Country	India	China	Brazil	South Africa	United States	Germany
Corporate Tax Rate	25%	25%	34%	28%	21%	15%
Tax Holidays	5-10 years	2-5 years	5 years	5 years	None	None
Special Economic Zones (SEZs)	Yes	Yes	Yes	Yes	No	No
Import Duty Exemptions	Yes	Yes	Yes	Yes	Yes	Yes
R&D Tax Credits	Yes	Yes	Yes	Yes	Yes	Yes
Infrastructure Quality	Moderate	High	Moderate	Moderate	High	High
Political Stability	Moderate	Moderate	Low	Low	High	High
Regulatory Efficiency	Moderate	High	Low	Low	High	High
Market Size	Large	Very Large	Large	Moderate	Very Large	Large
Labour Cost	Low	Low	Moderate	Moderate	High	High
Ease of Doing Business Rank (2020)	63	31	124	84	6	22

Source: Authors' compilation

In Table 6, when comparing India to other nations, a number of conclusions may be derived about the efficacy of tax incentives in luring FDI. While India and China both offer competitive corporate tax rates of 25%, China's higher ease of doing business ranks suggest that factors beyond tax rates, such as regulatory efficiency and infrastructure quality, significantly influence FDI attractiveness.

Both India and China leverage tax holidays and Special Economic Zones (SEZs) effectively, but China's shorter tax holidays (2-5 years) coupled with high infrastructure quality and regulatory efficiency make it more attractive to investors despite similar tax incentives. Countries like the United States and Germany, with high infrastructure quality and political stability, attract substantial FDI even without offering extensive tax holidays or SEZs, indicating that robust infrastructure and stable political environments are critical for FDI. India's large market size and low labour costs are significant draws for FDI; however, improvements in political stability and regulatory efficiency could further enhance its attractiveness compared to other countries. In summary, while tax incentives are vital for attracting FDI, their effectiveness is significantly enhanced when combined with other factors such as regulatory efficiency, infrastructure quality, political stability, and market size. These insights can help policymakers in India optimise their strategies to attract more FDI and achieve sustainable economic growth.

4.5 Effects of tax incentives on foreign direct investment

To examine the relationship between tax incentives and FDI inflows, statistical analyses such as correlation and regression were conducted.

4.5.1 Analysis of correlations

In order to comprehend the connection between tax incentives and foreign direct investment (FDI) flows, a correlation study was carried out. The outcomes are laid down in the Table 7.

Table 7: Correlation Analysis of Tax Incentives and FDI Inflows

Variable	Correlation Coefficient (r)
Tax Holidays	0.65
SEZs	0.62
Import Duty Exemptions	0.58
R&D Tax Credits	0.54
Infrastructure Quality	0.70
Political Stability	0.68
Ease of Doing Business	0.72

Source: Authors' Compilation

4.5.2 Regression analysis

The multiple regression analysis was conducted to determine the impact of various tax incentives on FDI inflows. The regression model included tax holidays, SEZs, import duty exemptions, R&D tax credits, infrastructure quality, political stability, and ease of doing business as independent variables in the Table 8.

Table 8: Regression Analysis of Tax Incentives and FDI Inflows

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
Tax Holidays	0.40	0.05	8.00	<0.001
SEZs	0.35	0.04	8.75	<0.001
Import Duty Exemptions	0.25	0.06	4.17	<0.001
R&D Tax Credits	0.22	0.07	3.14	<0.002
Infrastructure Quality	0.50	0.08	6.25	<0.001
Political Stability	0.48	0.07	6.86	<0.001
Ease of Doing Business	0.52	0.09	5.78	<0.001

Source: Authors' compilation

The correlation analysis demonstrates a positive association between different tax incentives and inflows of foreign direct investment (FDI). More precisely, tax holidays, Special Economic Zones (SEZs), import duty exemptions, and Research and Development (R&D) tax credits show association coefficients that vary between 0.54 and 0.65. This indicates a moderate to strong association between these incentives and increased FDI inflows. These findings are consistent with studies by Ambrosio (2020), who found that tax holidays significantly attract foreign investors by lowering initial costs, and Aggarwal (2019), who demonstrated the positive impact of SEZs on manufacturing FDI in India. Furthermore, the correlation coefficients for infrastructure quality, political stability, and ease of doing business are higher, ranging from 0.68 to 0.72.

This underscores the critical role of these factors in attracting FDI, aligning with the findings of the World Bank's Ease of Doing Business reports and research by Klaus E Meyer (2016), which emphasise that a stable and efficient business environment is essential for maximising the effectiveness of tax incentives. The regression analysis provides more detailed insights, revealing that tax holidays and SEZs have the most significant positive impacts on FDI inflows, with coefficients of 0.40 and 0.35, respectively. This means that increases in tax holidays and the establishment of SEZs can lead to substantial increases in FDI inflows. These results are statistically significant, as indicated by p-values less than 0.001, which confirms the robustness of these findings. These results are in line with empirical evidence from studies like Nuţă & Nuță (2012), which highlight the importance of tax holidays in attracting foreign investments. Import duty exemptions and R&D tax credits also positively impact FDI, though to a lesser extent, with coefficients of 0.25 and 0.22, respectively. This suggests that while these incentives are beneficial, their impact is less pronounced compared to tax holidays and SEZs. Studies by Blomström *et al.* (2003) support this finding, showing that while fiscal incentives like import duty exemptions are important, their effectiveness depends heavily on the broader investment climate.

Moreover, the regression analysis highlights the significant positive impacts of infrastructure quality, political stability, and ease of doing business, with coefficients of 0.50, 0.48, and 0.52, respectively. This indicates that improvements in these areas can greatly enhance FDI inflows. These findings are consistent with the literature, such as OECD (2023a) and UNCTAD (2022), which emphasise that robust infrastructure, political stability, and regulatory efficiency are critical factors in attracting FDI.

In summary, the statistical findings from this study corroborate the established understanding in the literature that tax incentives are a crucial tool for attracting FDI. However, their effectiveness is significantly enhanced when combined with improvements in infrastructure, political stability, and regulatory efficiency. These insights provide a comprehensive understanding for policymakers on how to optimise tax incentives to attract more FDI and achieve sustainable economic growth.

4.5.3 Comparative analysis

An examination of the efficacy of tax incentives in India, when compared to other emerging economies like Brazil, China, and South Africa, demonstrates mixed results. While India's tax incentives are competitive, other factors, such as regulatory efficiency and market size, also play crucial roles in attracting FDI (Meyer & Peng, 2016). For instance, China offers extensive tax incentives but also excels in infrastructure and regulatory efficiency, making it a more attractive destination for FDI (OECD, 2023a).

In contrast, Brazil and South Africa, despite offering similar tax incentives, attract less FDI due to higher political and economic risks (UNCTAD, 2022). Overall, while tax incentives are an important tool for attracting FDI, their effectiveness is significantly enhanced when combined with a stable political environment, robust infrastructure, and efficient regulatory frameworks. This comprehensive approach can help India maximise the benefits of FDI and achieve sustainable economic growth.

5.0 Discussion

5.1 Results and their interpretation

The study's findings offer valuable insights into the efficacy of tax incentives in stimulating Foreign Direct Investment (FDI) in India. The statistical analyses, which encompass correlation and regression, demonstrate a favourable association between the presence of tax incentives and the influx of foreign direct investment (FDI). This supports the theoretical framework, particularly the eclectic paradigm (Dunning, 1988), which posits that location-specific advantages, such as tax incentives, play a crucial role in attracting FDI. The analysis revealed that tax holidays and Special Economic Zones (SEZs) have a particularly strong positive impact on FDI inflows, accounting for approximately 40% of the variation. This aligns with institutional theory, which emphasises the importance of well-designed tax policies and governance structures in reducing investment risks (Meyer & Peng, 2016; North, 1990). However, the effectiveness of these incentives is moderated by other factors such as political stability, infrastructure quality, and regulatory efficiency. Countries like China, which combine tax incentives with high infrastructure quality and regulatory efficiency, have been more successful in attracting FDI compared to India. The comparative analysis shows that while India offers competitive tax incentives similar to those in China and Brazil, its overall effectiveness is impacted by moderate infrastructure quality, political stability, and regulatory efficiency. For instance, China's higher ease of doing business rank suggests that beyond tax incentives, regulatory efficiency and infrastructure significantly influence FDI attractiveness.

In contrast, Brazil and South Africa, despite offering similar tax incentives, attract less FDI due to higher political and economic risks. Countries like the United States and Germany, which have high infrastructure quality and political stability, attract substantial FDI even without extensive tax holidays or SEZs. This indicates that robust infrastructure and stable political environments are critical for FDI. The findings suggest that India's large market size and low labour costs are significant draws for FDI. Still, improvements in political stability and regulatory efficiency could further enhance its attractiveness compared to other countries.

5.2 Policy implications

The findings have several important implications for policymakers in India. First, while tax incentives are effective in attracting FDI, their impact can be significantly enhanced by improving other aspects of the investment climate. Policymakers should focus on strengthening infrastructure, ensuring political stability, and improving regulatory efficiency to complement tax incentives. Second, the duration and type of tax incentives should be strategically designed to maximise their effectiveness. For example, shorter tax holidays combined with targeted incentives for high-priority sectors could yield better results.

Additionally, expanding the benefits of SEZs and ensuring that they are well-integrated with the overall economic strategy can help attract more substantial and sustained FDI. Third, continuous monitoring and evaluation of the effectiveness of tax incentives are crucial. Policymakers should implement mechanisms to regularly assess the impact of these incentives on FDI inflows and make necessary adjustments based on empirical evidence. This adaptive approach will ensure that tax policies remain relevant and effective in the dynamic global economic environment.

5.3 Limitations of the study

Although this study offers interesting insights, it is important to understand its various limitations. Firstly, the analysis relies predominantly on secondary data, which may not encompass all intricacies and up-to-date advancements in tax laws and FDI trends. Future studies could be enhanced by conducting primary data collecting, such as administering surveys and conducting interviews with investors and officials, in order to obtain more profound insights.

Second, the study focuses on a limited number of countries for comparative analysis. It is possible that a more thorough understanding of the efficacy of tax incentives may be established if the scope of the study was expanded to include a greater number of countries, particularly those that are in different phases of economic development. Third, the study does not fully explore the long-term impacts of tax incentives on sustainable economic development. Future research should investigate whether the FDI attracted through tax incentives leads to sustained economic expansion, the creation of new jobs, and the transfer of technology in the long run.

In conclusion, while tax incentives are crucial for attracting FDI, their effectiveness is significantly enhanced when combined with other factors such as regulatory efficiency, infrastructure quality, and political stability. Policymakers in India should adopt a holistic approach to optimise tax incentives and create a conducive investment climate to achieve sustainable economic growth.

6.0 Conclusion

6.1 Summary of key findings

This study investigated the efficacy of tax incentives in stimulating Foreign Direct Investment (FDI) in India. The analysis demonstrated that tax incentives, including tax holidays and Special Economic Zones (SEZs), had a substantial and favourable effect on the inflow of Foreign Direct Investment (FDI), explaining over 40% of the variation in FDI (Dunning, 1988; Field, 2017; Wooldridge, 2019).

The statistical analyses, including correlation and regression, supported the theoretical framework that location-specific advantages like tax incentives are crucial for attracting FDI. Nevertheless, the impact of these incentives is contingent upon additional factors such as political stability, infrastructure quality, and regulatory efficiency (Meyer & Peng, 2016; North, 1990). Comparative analysis with countries like China, Brazil, South Africa, the United States, and Germany highlighted that while tax incentives are important, their effectiveness is significantly enhanced when combined with robust infrastructure, stable political environments, and efficient regulatory frameworks (OECD, 2023a; UNCTAD, 2022).

6.2 Contributions to knowledge

This study enhances the current knowledge on Foreign Direct Investment (FDI) and tax incentives by presenting empirical evidence on the correlation between tax incentives and the rise of FDI in India (Kandpal & Kavidayal, 2014; Nuţă & Nuță, 2012). It validates the eclectic paradigm and institutional theory by demonstrating the importance of location-specific advantages and governance structures in attracting FDI (Dunning, 1988; North, 1990). Additionally, the study offers a comparative perspective, highlighting how different countries utilise tax incentives and other factors to attract FDI (OECD, 2023a; UNCTAD, 2022). This comprehensive approach enhances our understanding of the multifaceted nature of FDI attraction and the role of tax incentives within that context.

6.3 Recommendations

Findings from this study provide policymakers and practitioners in India with several important recommendations for improving the investment climate and making the most of tax advantages. While tax incentives are effective in attracting FDI, their impact can be significantly enhanced by improving other aspects of the investment climate, such as infrastructure and regulatory efficiency (Meyer & Peng, 2016).

Policymakers should focus on developing high-quality infrastructure and streamlining regulatory processes to create a more attractive investment climate. Additionally, the duration and type of tax incentives should be strategically designed to maximise effectiveness. For example, shorter tax holidays combined with targeted incentives for high-priority sectors could yield better results (Aggarwal, 2019). Expanding the benefits of Special Economic Zones (SEZs) and ensuring they are well-integrated with the broader economic strategy can help attract more sustained FDI.

Furthermore, it is crucial to implement mechanisms for continuous monitoring and evaluation of the effectiveness of tax incentives on FDI inflows (DPIIT, 2023). Policymakers should use empirical evidence to make necessary adjustments to tax policies, ensuring they remain relevant and effective in the dynamic global economic environment. Improving political stability is another critical factor in creating a conducive environment for FDI (Meyer & Peng, 2016; North, 1990). Efforts should be made to ensure a stable political climate through effective governance and policy continuity.

Lastly, India's large market size and low labour costs are significant advantages that should be leveraged by promoting India as an attractive destination for FDI through targeted marketing and investment promotion activities (Kandpal & Kavidayal, 2014; UNCTAD, 2022). By adopting these recommendations, policymakers in India can optimise tax incentives, enhance the overall investment climate, and attract more FDI to achieve sustainable economic growth.

References

Abbas, S.M.A., & Klemm, A. (2013). A partial race to the bottom: corporate tax developments in emerging and developing economies. *International Tax and Public Finance*, *20*(4), 596–617. Retrieved from https://doi.org/10.1007/S10797-013-9286-8

Aggarwal, A. (2006). SEZs and economic transformation: towards a developmental approach. *Economic and Political Weekly*, *41*(6), 4533–4536.

Aggarwal, A. (2019). SEZs and economic transformation: towards a developmental approach. *Transnational Corporations, 26*(2), 27–47.

Ambrosio, F. (2020). Principles of taxation in the United States: Theory, policy, and practice. *Principles of Taxation in the United States: Theory, Policy and Practice*. Retrieved from https://doi.org/10.4324/9780429431869/principles-taxation-united-states-fabio-ambrosio

Aschauer, D. A. (1989). Is public expenditure productive? *Journal of Monetary Economics, 23*(2), 177–200. Retrieved from https://doi.org/10.1016/0304-3932(89)90047-0

Auerbach, A.J. & Gorodnichenko, Y. (2016). Effects of fiscal shocks in a globalized world. *IMF Economic Review, 64*(1), 177–215. Retrieved form https://ideas.repec.org/a/pal/imfecr/v64y2016i1p177-215.html

Blomström, M., Kokko, A., & Mucchielli, J.-L. (2003). The economics of foreign direct investment incentives. *Foreign Direct Investment in the Real and Financial Sector of Industrial Countries*, 37–60. Retrieved from https://doi.org/10.1007/978-3-540-24736-4_3

Blonigen, B. A., & Piger, J. (2014). Determinants of foreign direct investment. *Canadian Journal of Economics, 47*(3), 775–812.

Bose, T. K. (2012). Advantages and disadvantages of FDI in China and India. *International Business Research, 5*(5). Retrieved from https://doi.org/10.5539/IBR.V5N5P164

Calderón, C., & Servén, L. (2010). Infrastructure and economic development in sub-saharan Africa. *Journal of African Economies, 19*(suppl_1), 13–87. Retrieved from https://doi.org/10.1093/JAE/EJP022

Chakraborty, C., & Basu, P. (2002). Foreign direct investment and growth in India: A cointegration approach. *Applied Economics, 34*(9), 1061–1073. Retrieved from https://doi.org/10.1080/00036840110074079

Chakraborty, C., & Nunnenkamp, P. (2008). Economic reforms, FDI, and economic growth in India: A sector level analysis. *World Development*, *36*(7), 1192–1212. Retrieved from https://doi.org/10.1016/J.WORLDDEV.2007.06.014

Creswell, J. W., Clark, V. L. P., & Plano Clark, V. L. (2007). Designing and conducting mixed methods. Retrieved from http://scholar.google.com/scholar?hl=en&btnG=Search&q=intitle:Designing+and+conducting+mixed+methods+research#0%5Cnhttp://doi.wiley.com/10.1111/j.1753-6405.2007.00096.x

Demirhan, E., & Masca, M. (2008). Determinants of foreign direct investment flows to developing countries: A cross-sectional analysis. *Prague Economic Papers*, *4*, 356–369. Retrieved from https://doi.org/10.18267/J.PEP.337

Desai, M. A., Foley, C. F., & Hines, J. R. (2006). The demand for tax haven operations. *Journal of Public Economics, 90*(3), 513–531. Retrieved from https://doi.org/10.1016/J.JPUBECO.2005.04.004

Dharmapala, D. (2014). What do we know about base erosion and profit shifting? A review of the empirical literature. *Fiscal Studies, 35*(4), 421–448. Retrieved from https://doi.org/10.1111/J.1475-5890.2014.12037.X

DIPP. (2023). Annual report 2022-23 by intellectual property India. In intellectual property India. Retrieved from https://ipindia.gov.in/writereaddata/Portal/IPOAnnualReport/1_114_1_ANNUAL_REPORT_202223_English.pdf

DPIIT. (2023). Annual Report 2022-23. Retrieved from https://dpiit.gov.in/sites/default/files/DPIIT_AnnualReportE_03March2023.pdf

Dunning, J. H. (1988). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies, 19*(1), 1–31. Retrieved from https://doi.org/10.1057/PALGRAVE.JIBS.8490372/METRICS

Farole, T., & Akinci, G. (2011). Special economic zones : Progress, emerging challenges, and future directions. *The World Bank Group*. Retrieved from https://ideas.repec.org/b/wbk/wbpubs/2341.html

Feld, L P., & Heckemeyer, J.H. (2011). FDI and taxation: A meta-study. *Journal of Economic Surveys, 25*(2), 233–272. Retrieved from https://ideas.repec.org/a/bla/jecsur/v25y2011i2p233-272.html

Field, A. (2017). *Discovering statistic using IBM SPSS statistic 5th*. Sage Edge Publications.

Görg, H., & Greenaway, D. (2004). Much ado about nothing? Do domestic firms really benefit from foreign direct investment? *The World Bank Research Observer, 19*(2), 171–197. Retrieved from https://ideas.repec.org/a/oup/wbrobs/v19y2004i2p171-197.html

Hajkova, D., Nicoletti, G., Vartia, L., & Yoo, K.-Y. (2007). Taxation and business environment as drivers of foreign direct investment in OECD countries. *OECD Economic Studies, 2006*(2), 7–38. Retrieved from https://doi.org/10.1787/eco_studies-v2006-art8-en

IMF. (2022). Fiscal Monitor, April 2022. Retrieved form https://www.imf.org/en/Publications/FM/Issues/2022/04/12/fiscal-monitor-april-2022

James, S. (2013). Effectiveness of tax and non-tax incentives and investments: Evidence and policy implications. Retrieved from https://doi.org/10.2139/SSRN.2401905

Jana, S. S., Sahu, T. N., & Pandey, K. D. (2019). Foreign direct investment and economic growth in India: A sector-specific analysis. Retrieved from https://doi.org/10.1177/2319510X19849731

Kandpal, V., & Kavidayal, P.C. (2014). An overview of the impact of tax incentives on foreign direct investment in India. *Journal of Commerce and Management Thought, 5*(4), 557. Retrieved from https://doi.org/10.5958/0976-478X.2014.00004.4

Kaufmann, D., Kraay, A., & Mastruzzi, M. (2011). The worldwide governance indicators: Methodology and analytical issues. *Hague Journal on the Rule of Law, 3*(2), 220–246. Retrieved from https://doi.org/10.1017/S1876404511200046/METRICS

Klemm, A., & Parys, S. V. (2009). Empirical evidence on the effects of tax incentives IMF working paper fiscal affairs department empirical evidence on the effects of tax incentives. Retrieved from https://www.imf.org/external/pubs/ft/wp/2009/wp09136.pdf

Kumar, N. (2002). *Globalisation and the quality of foreign direct investment*. Thousand Oaks, CA: Sage Publications Sage. Retrieved from https://doi.org/10.1177/139156140300400110

Meyer, K. E. & Peng, M.W. (2016). Theoretical foundations of emerging economy business research. *Journal of International Business Studies, 47*(1), 3–22. Retrieved from https://www.jstor.org/stable/43907555

Ministry of Finance, Government of India (2022). Economic survey. *Department of Economic Affairs*. Retrieved from https://www.indiabudget.gov.in/economicsurvey/

Mohammed, K.A.S. (2023). The role of foreign direct investment in economic development of developing countries. *Krakowskie Studia Małopolskie, 1*(37), 92–114. Retrieved from https://doi.org/10.15804/KSM20230105

Morisset, J., & Pirnia, N. (2000). How tax policy and incentives affect foreign direct investment: A review. *The World Bank and International Finance Corporation*. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=632579

Narula, R., & Dunning, J. H. (2010). Multinational enterprises, development and globalization: Some Clarifications and a research agenda. *Oxford Development Studies, 38*(3), 263–287. Retrieved from https://doi.org/10.1080/13600818.2010.505684

Nath, H. K. (2013). Foreign Direct Investment (FDI) in India's retail sector. *Space and Culture, India, 1*(1), 2–12. Retrieved from https://doi.org/10.20896/SACI.V1I1.17

Nayyar, D. (2017). Economic liberalisation in India. *Economic and Political Weekly, 52*(2). Retrieved from https://www.epw.in/journal/2017/2/25-years-economic-liberalisation/economic-liberalisation-india.html

Nguyen, V.B., & Nguyen, V.B. (2023). The role of digitalisation in the FDI - income inequality relationship in developed and developing countries. *Journal of Economics, Finance and Administrative Science, 28*(55), 1–21. Retrieved from https://doi.org/10.1108/JEFAS-09-2021-0189

NITI Aayog. (2022). Strategy for New India @ 75. Retrieved from https://www.niti.gov.in/the-strategy-for-new-india#:~:text=NITI%20Aayog's%20comprehensive%20national%20Strategy,stated%20objectives%20for%202022%2D23.

North, D. C. (1990). *Institutions, institutional change and economic performance*. Washington, United States: Cambridge University Press. Retrieved from https://doi.org/10.1017/CBO9780511808678

Nuţă, A. C., & Nuță, F. M. (2012). The effectiveness of the tax incentives on foreign direct investments. *Journal of Public Administration, Finance and Law, 1*(1), 55–65.

OECD. (2023a). FDI in figures. In FDI monthly report (Issue April). Retrieved from http://www.oecd.org/investment/FDI-in-Figures-April-2019.pdf

OECD. (2023b). OECD Science, Technology And Innovation Outlook 2023 (OECD science, technology and innovation outlook). Retrieved from https://doi.org/10.1787/0B55736E-EN

Parys, S. V. (2012). The effectiveness of tax incentives in attracting investment: Evidence from developing countries. *Reflets et Perspectives de La Vie Economique*, *51*(3), 129–141. Retrieved from https://doi.org/10.3917/RPVE.513.0129

Reserve Bank of India. (2023). Reserve Bank of India - Handbook of statistics on Indian Economy. *Handbook of Statistics on Indian Economy, 2022-2023*. Retrieved from https://fidcindia.org.in/wp-content/uploads/2023/09/rbi-handbook-of-statistics-of-indian-economy-15-09-23.pdf

Sabir, S., Rafique, A., & Abbas, K. (2019). Institutions and FDI: Evidence from developed and developing countries. *Financial Innovation*, *5*(1), 1–20. Retrieved from https://doi.org/10.1186/S40854-019-0123-7/TABLES/15

Smarzynska, K. B. (2002). Does foreign direct investment increase the productivity of domestic firms in search of spillovers through backward linkages? *Policy Research Working Paper Series*. Retrieved from https://ideas.repec.org/p/wbk/wbrwps/2923.html

UNCTAD. (2021). World Investment Report 2021: Investing in a sustainable recovery. In World Investment Report (Issue 1). Retrieved from https://unctad.org/system/files/official-document/wir2021_en.pdf

UNCTAD. (2022). World investment report 2022. Retrieved from https://unctad.org/system /files/official-document/wir2022_en.pdf

Warda, J. (2002). *STI review: Special issue on new science and technology indicators. In OECD Publishing (Vol. 27, Issue 2)*. Organisation for Economic Co-operation & Development Central Book Services New Zealand.

Wooldridge, J. M. (2019). *Introductory econometrics: A modern approach*. Cincinnati, United States: South-Western College Publishing.

World Bank (2017). Global value chain development report: Measuring and analysing the impact of GVCs on economic development. Retrieved from https://www.worldbank.org/en/topic/trade/publication/global-value-chain-development-report-measuring-and-analyzing-the-impact-of-gvcs-on-economic-development

World Bank. (2020). Doing business 2020: Comparing business regulation in 190 economies. Washington, DC: World Bank. Retrieved from https://doi.org/10.1596/978-1-4648-1440-2

World Bank. (2024). Global economic prospects: In the financial crisis and the Global South (Issue June). Retrieved from https://doi.org/10.2307/j.ctt183pb3w.5

WTO. (2019). World Trade Report 2019: The future of services trade. Retrieved from https://www.wto.org/english/res_e/booksp_e/00_wtr19_e.pdf

Zee, H.H., Stotsky, J.G., & Ley, E. (2002). Tax incentives for business investment: A primer for policy makers in developing countries. *World Development*, *30*(9), 1497–1516. Retrieved from https://doi.org/10.1016/S0305-750X(02)00050-5

Zolt, E. (2015). Tax incentives: Protecting the tax base. Tax. Retrieved from https://static.un.org/esa/ffd/wp-content/uploads/2015/04/2015TIBP_PaperZolt.pdf