

MNCs Investment Patterns and Its Impact on Economic Development of UP

ABSTRACT

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ABSTRACT

Introduction

Investment means the use of money in the expectation of earning more and more profit. India is growing as one of the significant economies in the world with massive potential for long-run growth. Indian economy is developing at a fast rate and is filled with investment opportunities and, more essentially, is positioning itself as the country which would proffer lucrative returns for investors. According to UNCTAD's World Investment Prospects Survey 2010-2012, India is the second-most profitable destination for Foreign Direct Investment (FDI) in the world. Indian markets have significant potential, offering prospects of high profitability and a favourable regulatory regime for investors. As India establishes a niche for cornering significant investment influx, it is also imperative to gauge the impact of investments done by MNCs in influencing the economic development at all levels in the country. Thus, this study undertakes a unique initiative of analysing and positing an exhaustive empirical framework to assess the impact of MNC's on the economic growth of the country's most populous state, Uttar Pradesh.

Foreign Investment

Any investment from one nation in another is foreign investment. The Indian government differentiates cross border investment into different categories like Foreign Direct Investment (FDI), Foreign Institutional Investment (FII), Non-resident Indian (NRI) and Persons of Indian origin (PIO) investment.

FDI Policy in India

The government has put in place a liberal policy on FDI. The policy entails that investment up to 100% is permitted under the automatic route in most sectors. There are very small lists of sectors, which are either prohibited for MNCI or are subject to restrictions on the nature of equity caps, entry route or conditionality. Further, the FDI policy is reviewed on an ongoing basis, with a view of making it more investment-friendly.

Prohibited Sectors

FDI is prohibited in the following sectors:-

- Lottery Business together with Government or private, online, etc.
- Betting together with casinos, etc.
- Receipt (Chit) funds
- Nidhi Corporation.
- Business in Transferable Development Rights (TDRs)
- Trading in Real Estate
- Production industries of tobacco substitutes
- Sectors that are not opened to private sector investment (other than the permitted activities).

MNCs Investment in Uttar Pradesh

The economy of Uttar Pradesh is the third in India after Maharashtra and Tamil Nadu. In 2013-14 it was the second-highest nominal state GDP in India. Accounting for 7.3 percent of the country's area, and according to the census 2011, it is home to 16.5 percent of Indians. The state contributes 8 percent to the Indian economy approximately.

It is the highest populous state in India, with a great pool of skilled, semi-skilled and unskilled workforce. Alternately, its population also can be seen as the highest consumer base in the nation with a population of around 200 million. It is the biggest producer of foodgrains amongst all the states in India and contributes 17.83% share in the country's total foodgrain output in 2016-17.

The high domestic animal population in the state makes it one of the leading producers of leather items. Uttar Pradesh is a leader in the production of multiple food and horticulture crops such as wheat, potato, mango, etc. It is also the third-highest thermal power producer and second-highest hydel power producer in India. The state's resources, policy incentives, infrastructure and climate are most conversant for the investors' interest in investing in different sectors. With a growing economy and developing industrialization, Uttar Pradesh promises to be an alluring hub for MNCI.

A sequence of new policy initiatives and focus on infrastructure development, supported by the accessibility of skilled manpower, significant resource base and a big consumer market all make Uttar Pradesh the choice destination for FI.

Advantages that Uttar Pradesh affords:

- Recent policy initiatives have created an investment-friendly environment.
- Strong industrial infrastructure together with theme parks, export parks & SEZs.
- 57 percent of the *Eastern Dedicated Contents Corridor* and 7 percent of the *Delhi-Mumbai Industrial Corridor* is passing through the state.
- Focus on improving connectivity further through jumbo road projects.
- Abundant agro resource base. Highest producer of wheat, sugarcane and potato, having ranked second in vegetable and third in fruit, amongst all the Indian states.
- The longest network of rivers and canals measuring 31,200 km nurturing the agriculture sector.
- A massive market potential that bespeaks of a huge domestic consumer base.

The prominent characters of the policy are:-

- I. Belief in entrepreneurs' scheme of self-certification to be optimistic.
- II. Improvement in infrastructure.
- III. Exploring new areas for investment like IT, Biotech and Food Processing sector.
- IV. Multidimensional policy idea of enterprise in place of industry.

Significance of the Present Study

The above review of literature proves beneficial in identifying the research issues and the research gaps that inspire the objectives of the present study. There is hardly any study on MNC's investment in the economy of Uttar Pradesh. MNCs' investment in the context of Uttar Pradesh is yet to analysis, which adds beauty to this study. This study will take a deep interest in highlighting the overall issues and challenges of MNCI in Uttar Pradesh. The present study is mainly focussed on MNCI in Uttar Pradesh; it also tries to find the determinants and impact of MNCI on the economy of Uttar Pradesh at the macro level. This is the first-ever such type of study in Uttar Pradesh, which analyse the patterns of MNCI in Uttar Pradesh.

Objectives

The study covers the following objectives:

1. To assess the patterns and impact of MNCs' Investment on the economy of Uttar Pradesh.
2. To assess the Investment policy to attract MNCs in the favour of economic development of Uttar Pradesh.
3. To assess the CSR of MNCs' for the economic development of Uttar Pradesh.
4. To evaluate the impact of MNCs' on worker development.

Hypotheses

There are two hypotheses for the present research study:

Hypothesis-1

H₀: MNCs Investment is not playing a significant role in the economic growth of Uttar Pradesh.

H₁: MNCs Investment is playing a significant role in the economic growth of Uttar Pradesh.

Hypothesis-2

H₀: There is no significant relationship between the employer and employee in MNCs in the workers' interest.

H₁: There is a significant relationship between the employer and employee in MNCs in the workers' interest.

Methodology

1-Data Collection

This study is based on the primary as well as secondary data based. The secondary data have been collected from various institutions; Word Bank Data, UNCTADE, Reserve Bank of India, Security and Exchange Board of India, Government of UP, Department of Industrial Promotion and Policy, annual reports of the economy of UP by state and central government bodies. , etc. the primary data will collect by the survey area.

2-Survey Area

The selected area for the survey is NOIDA, which has been selected under purposive sampling. This sampling technique was chosen because there are more than 240 MNCs are working in Uttar Pradesh and 220 MNCs head offices are established in NOIDA (during the survey period which was September-November, 2018).

3-Sample Size

For primary data, two separate questionnaires have been used to collect samples; one for MNCs and second for MNCs' workers.

For the study of the CSR contribution in the development of Uttar Pradesh, 42 samples have been collected from the survey area and respondents are MNCs itself. The sample size is approximately 20% of the total numbers of MNCs which are working in NOIDA. The method of collecting samples is purposive sampling.

For evaluating the impact of MNCs' on workers' development, 252 samples of work have been collected from MNCs based in NOIDA and the respondents are MNC's workers. Method for collecting primary data from workers is simple random. The respondents' views were collected during their lunch hour or after their office hours because there is no permission to enter into the production area in MNCs.

For secondary data, the study period has been taken from 2000-01 to 2018-19. Secondary data are time series in nature, taken from the reports and fact sheets, published by the Department of Industrial promotion Policy, RBI, Ministry of Commerce and Industry, World Bank and PolicyUncertainty.com.

What is the need of collecting primary data for CSR from MNCs?

Because the present research study is based in Uttar Pradesh and no-MNC has yet published data related to CSR based on the state level. CSR data for reference has been published only at the national level. So, the primary survey is necessary for data related to CSR from MNCs based in Uttar Pradesh.

Tools and Techniques

Precise economic and econometric tools and techniques are used which are based on the chapter plans. Such as:

Descriptive Statistics

Chi-Square and Multivariate Chi-Square Test

Time Series Economic Uncertainty Index

Henry-Garette's Ranking Technique

Time-series Regression with Newey-West standard errors

Odd-Ratio Logistic Regression

Some software like Excel and STATA are also used.

The thesis has been envisaged in the following framework:

Chapter-1: MNCs Investment in Uttar Pradesh.

Chapter-2: Theoretical and Conceptual Framework

Chapter-3: Patterns of MNCs Investment

Chapter-4: Policies, Uncertainty and MNCs Investment

Chapter-5: CSR of MNCs and Uttar Pradesh: a Case Study of NOIDA

Chapter-6: Employer and Employee relationship in MNCs

Chapter-7: Research Findings and Recommendations for Policy Implementations

Summary of the Present Research

Just as a weak human body needs blood and it is borrowed from another healthy body, similarly, Investment from abroad is important for a weak economy. In the above conceptual theories, it is defined that the causes and effects of MNCs' investment. These theories are very much related to the research study and provide that so many understandings for determinants of MNCs' investment. Investment in business equipment by firms is important in both the short-run business cycles and in the long-run growth of developing economies as it explains much of the volatility and movement in the countries' GDP. In this Chapter, we reviewed the main traditional theories of investment behaviour that include flexible accelerator, the Tobin q the neoclassical theory, the liquidity and profitability theories focusing on their applicability to firms operating in developing economies. Most traditional theories of investment behaviour have been developed for use in industrialised economies. However, developing economies have idiosyncratic socio-political and economic characteristics that are quite different from developed economies. This suggests the need to reformulate investment theories to suit the context of developing economies countries where factors like prices, aggregate demand, inflation, interest and exchange

rates, firm-level investment behaviour and output fluctuate with higher unpredictability.

In the previous period, many economists provided different concepts regarding Multinationals' investment. As Raymond Vernor (1966) indicates that the stages of the product cycle tell how a product cost and benefit are playing an important role in international trade. In the present study, it will be seen that which things are affected and which things affect foreign trade in the economy of the state of Uttar Pradesh. According to Dunning (1966), it is considered that locational advantages are necessary for MNCs' investment as the existence of raw materials, low wages, special taxes or tariffs. Locational advantage refers to the different countries or regions, for undertaking the value-added activities of MNCs. Uttar Pradesh have a very economical and Locational advantage for multinationals for investment. In Uttar Pradesh, skilled labour and a favourable economic environment are available for multinationals. Robert E. Lipsay (2002) says that there are two types of effects on MNCs' investment: Home county effect and host country effect. As second affect how economic determinants affect the MNCs' investment. It has been analysed in this research study that how economic determinants affect MNCs' investment and the host economy is being affected by MNCs' investment. Volker Nocke and Stephen Yeaple (2004), after analysing volume and composition of MNCs' investment, say that they model the merger market as a market in which heterogeneous firms buy and sell heterogeneous firm-specific assets to exploit complementarities.

According to the World Bank, India currently, ranks at the 62nd (in 2019) place in the 'ease of doing business' index, which is a significant jump from the 130th position in 2017.

Uttar Pradesh is a huge state not only based on population, but also on the size of the economy. It needs huge investment for its economic development, but where Gross investment is playing a significant role for boosting it, Industries of the organised sector are not recruiting workers as much as needed to impact the economic growth of the state because Investors are limited resources if they recruit more workers it can create a financial and managerial problem for them (Guest, D.E. 1987).

Presently, (as of April 2017) 240 MNCs are working in Uttar Pradesh but their investment is very small to impacting economic growth. It seems in the result that

there is no association between the economic growth of Uttar Pradesh and MNCs' investment. The reasons behind the lack of coming foreign investors are that good governance, lack of infrastructures, the regional disparity of investment patterns.

For monitoring direct investment by foreign investors Uttar Pradesh is divided into two different RBI Zones; Delhi and Kanpur. Kanpur Zone covers all Uttarakhand and maximum part of Uttar Pradesh and Delhi Zone covers all Delhi, a part of western Uttar Pradesh, Hariyana and Rajsthan.

The secondary evidence is taken from both zones for the present study. The inflow of MNCI is very much higher in a Delhi zone than Kanpur zone. But in the result, there is no statistically significant impact of MNCI on the economic growth of Uttar Pradesh.

Infrastructure availability is the most critical factor for attracting foreign investors. In India, the distribution of foreign investment is biased with skewness 3.07. Where Maharashtra, Karnataka and Haryana are having a foreign investment of 70 percent of total foreign investment, the rest of India is having only 30 percent.

There are 10 highest investing counties which are; Mauritius, Singapore, U.K., Japan, USA, Netherlands, Germany, France, UAE and Cyprus. For the last 10 years, UAE, USA and Mauritius are investing respectively highest in India.

The sector-wise inflow of foreign investment is highest in service and IT sectors in all over India, both sectors are having 44 percent of total foreign investment.

RBI is setups 16 regional zone to measure foreign investment such as; Mumbai, New Delhi, Banglore, Chennai, Ahmadabad, Hyderabad, Kolkata, Kochi, Chandigarh, Kanpur, Jaipur, Panji, Bhubaneswar, Guwahati, Patna and Jammu, where for last 10 years, Bangalore, Hyderabad, Chennai and Ahmadabad are having 57 percent of total foreign investment. These parts of India are providing good communicating and connecting facilities to MNCs all over the world which is the main factor for becoming the most likely region for foreign investors for investment.

In Uttar Pradesh, there are more than 240 MNCs are working, but 45 percent of MNCs is working under the IT&Software industry.

Foreign Investment in Uttar Pradesh is measured by two different RBI regional offices; Kanpur and Delhi regional office. Delhi zone is having much more foreign investment in comparison with Kanpur zone.

There is no statistically significant relationship between both zones, because the Kanpur region is a less developed and lack of required infrastructure, whereas the Delhi region is full of facilities for foreign investors.

The amount of total foreign investment is very less in comparison with GVA of Uttar Pradesh, which is the main reason for the statistically insignificant of MNCI for playing a good role in the economy of Uttar Pradesh.

In conclusion, it can be said that in the Indian context, a small miscalculation while deciding the foreign investment policy on the side of policymakers shall make MNCs' investment a load on the Indian economy and upon the people of India. Therefore, the Government of India, while choosing the policy towards foreign investments should take necessary precautions, considering both economic and social factors, to avoid any potential negative effects of allowing MNCs' investment in India.

Discussion based on findings leads us to conclude that the encouragement and facilitation of international investors in India have created ample opportunities. It can be concluded that India has come across vast diversification in all sectors in terms of growth and infrastructure development since liberalisation started. In terms of policy implication, further liberalisation may have some negative effects on the traditional players which could not compete with global competitive pressure, however, that shall not impede the ability to implement the policy of liberalisation. Instead, the measure should be taken to make easy the structural improvement associated with further liberalisation. These may include the development of human capital and labour force to facilitate the smooth transition and reducing the unemployment associated with the structural change in the industry. Nonetheless, this may also be an aspect to consider in the fiscal management and allocation of resources to those sectors of the economy which are negatively influenced by the liberalisation.

There is an efficient symbiotic relationship between MNCs and host policy uncertainty that helps mitigate economic loss, particularly in politically unstable jurisdictions. While it is well known that MNCs often partner with local firms to get a

toehold in particular countries and assistance in navigating the local institutions, it is less well known what externalities these relationships generate. We suggest that in addition to providing more stable customer growth, MNCs' relationships with the government can serve to dampen the rise of political instability. While many conjectures that MNCs attempt to influence policy in an exclusively self-serving manner, our work suggests that MNCs appear to influence policy in an altruistic manner that has positive implications for the local landscape. Using several unique data sets, it has found a positive association between the likelihood of maintaining a cross country relationship and the level of host country political risk. This finding is consistent with MNCs teaming up with local organizations to navigate host country political risk. MNCs that maintain cross economy relationships enjoy greater future customer growth, particularly during periods of high political risk. However, it is also found that the aggregate level of MNC and host economy relationships is associated with lower levels of future political risk. This finding suggests that these local partnerships help align the MNCs' interests with the adoption of policies that benefit all economic activity, not just the MNCs.

Beyond profit, to doing business fairly and responsibly, MNCs is supposed to obey the law and regulations. They also should work ethically towards all stakeholders. Finally, MNCs should run as good corporate citizens. Many of them have been working hard to improve their corporate structures and incorporate schemes to set up a socially responsible work culture and become a responsible corporate citizen, as they understand this will promote the company, employees and community in the long run. It will also assist build reputation and leave a good impression. Therefore, many MNCs are taking their role as CSR leaders sincerely to be more profitable, sustainable, and prominent corporate people.

CSR is generally processed by large, high profile national companies and MNCs, particularly those with recognized international brands or those which are hopeful to global status.

In developing Nations, CSR is most generally linked with social participation through corporate social investment in education, health, sports development, the environment, and other social activities. Making economic participation is frequently seen as the most vital and efficient direction for the business to craft a social impact,

through investment, job creation, taxes, and technology transfer. Corporate finds themselves engaged in the provision of social activities that could be seen as the responsibility of public administration in developed nations, for example, investment in infrastructure, schools, hospitals, and housing.

There is a problem with MNCs that they are not publishing their CSR expenditure according to geographical or political area which creates problems that may lead the state government to make a friendly investment policy. MNCs are clear with their company's philosophy with CSR activities, but their annual report is not fulfilled with data related to it.

India is the first-ever country in the world to mandate corporate social responsibility for big business sharks. On 1 April 2014, the government of India put into practice new CSR guidelines requiring companies to use up 2% of their net profit on social development.

Advanced investment incentives are given by the host governments and elimination of restrictions on operations of MNCs in India. This has also led to an ever-growing number of bilateral investment treaties.

Work culture is a result, in a company created by a set of values and beliefs, carried forward from a long period and has an important impact on the behaviour, quality and quantity of work done by the workers in a company.

The work culture of MNCs is reflected by the various norms and standards. An MNC working in India must have an idea of the business culture of India. Thus, an MNC working in India must have some basic idea regarding the business ethics and customs followed here. Having a good grasp of Indian business culture ensures that it has succeeded in maintaining a well-earned affinity with business counterparts.

Developing global cultural competency is one of the most, not the easiest aspects of working internationally. Managing the countless work and management styles that MNCs face across geographies, businesses, functions and projects can be overwhelming. What is effective in work culture may be ineffective, or even inappropriate.

The present study finds that the wellness benefits and programs are becoming increasingly important for employees around the globe and for their employers looking to create and maintain a workplace "culture of health" that also improves productivity. Employees are concerned about their well being, as well as the impact of any health issues on their job performance. MNCs are providing good and workers friendly work culture and provide a comfortable environment for the workers.

The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 has been a division in the history of India's effort to ensure a safe and a favourable working environment for women. The Act not only puts in place essential mechanisms for the safety and security of working women but also provides the much-needed boost and direction to the efforts of corporate India to ensure a balanced and a gender-neutral working environment. In the recent past, there has been a marked improvement in the approach of the board in bringing down cases of sexual harassment at the workplace by setting up essential preventive mechanisms and internal complaints committee. Workers working in MNCs are also satisfied with a physically safe environment and also privacy providing a workplace in MNCs.

The Study has also shown that the Time Pressure towards not affecting the MNCs' Employees (Shyamala D., and Rajandran K.V.R., 2017)

In a nutshell, MNCs are having a good employer and employee relationship which provides career development for the workers.

Final Remark on the Present Study

The study covers the following objectives:

Objective-1: To assess the patterns and impact of MNCs' Investment on the economy of Uttar Pradesh.

The objective third is also achieved that the present study provides the trend and pattern of MNCI in Uttar Pradesh but due to very less amount, its contribution is not significant for the economic development of Uttar Pradesh.

Objective-2: To assess the Investment policy to attract MNCs in the favour of economic development of Uttar Pradesh.

This objective is also achieved and it provides information about the foreign investment policy of India and also what determinants are also important for achieving the policy's goal.

It is also providing understandings about How to analyse different kinds of determinants and improve the research. As:

- Political stability and safety of Investors
- Legal framework and the role of Law
- International agreements for MNCs' investment into India

Objective-3: To assess the CSR of MNCs' for the economic development of Uttar Pradesh

This objective is also achieved. The determinant of MNCs' participation in the economic development of Uttar Pradesh is the CSR (Corporate Social Responsibility). In the present study, it is found that MNCs are paying attention to CSR expenditure. At the same time, companies also express their discomfiture because the legal clause creates undue pressure and entails extra expenditure. Companies concur that CSR generates better brand recall and helps to amass goodwill which translates into higher brand value and better profits with more brand loyal customers. However, the organisations prefer to use their discretions in choosing upon the investments incurred for CSR initiatives.

Objective-4: To evaluate the impact of MNCs' on the workers' development.

The last objective of the present research is also achieved. It provides evidence about the employer-employee relationship in MNCs and how it is relevant to the workers' economic development. The participation of female workers in MNC is significant. Workers who are working for the first time in a company are satisfied, but more workers are not satisfied with career progress especially those who are working for more than 5 years. Although MNCs provide a good work culture that ensures safety, security and a peaceful environment for the workers in the workplace, employees who have spent more than 5 years seem to have some disenchantment with their enterprises.

Hypotheses

There are two hypotheses for the present research study:

Hypothesis-1

H₀: MNCs investment is not playing a significant role in the economic growth of Uttar Pradesh.

H₁: MNCs investment is playing a significant role in the economic growth of Uttar Pradesh.

The amount of MNCs investment is very small before the economy of Uttar Pradesh. Due to this reason, there is no evidence to reject the hypothesis after testing it. Now the null hypothesis is accepted.

Hypothesis-2

H₀: There is no significant relationship between the employer and employee in MNCs in the workers' interest.

H₁: There is a significant relationship between the employer and employee in MNCs in the workers' interest.

The workers contribute towards ensuring a good work environment in MNCs while the MNCs provide them with safety security, better career options. Due to this, there is strong evidence to reject after testing it, the null hypothesis is rejected.

Limitation of Present Research

- Secondary evidence is not provided by the relative Government institutions properly in the context of UP. Due to this the present study has very few time-series observations of MNC investment in Uttar Pradesh.
- MNCs are also reluctant in sharing their data with the researchers. This is also a problem in reaching a more conclusive summation.
- Since no data related to CSR is published in annual reports by MNCs, it hampers an exhaustive analysis, thus thwarting a more convincing and accurate solution to overcome the existing lacunae.

Recommendations for Policy Implementations

The current context of investment in the country is far more inclusive than the earlier decades as the GOI remains dedicated to infuse its mission of *ease of doing business* in India by pruning the *red tape* to facilitate the mechanisms of investment in India. Uttar Pradesh, to its merit, has been able to attract more than its current worth of foreign investment through MNCs investments in the state. However to ensure further strengthening of this growth curve, economists, policymakers and the state government would need to reorient the existing frames for MNCI. This becomes a mandatory exercise if UP intends to be deemed as the cynosure for global investors.

Even more imperative is to secure the symbiotic bond that the host country and the MNC share to harness the economic development. Growth cannot be a mere prerogative of the investors, it must percolate to include the employees and even make significant inroads in the socioeconomic levels of the host nation. With this intent, the present study sets forth the following recommendations in the favour of Nation and State:

1. Government should simplify the Company Act completely so that clear-cut criteria can be imposed without any ambiguity because MNCs have incentive deliberately putting itself outside of CSR expenditure for all MNCs which are falling into and which are not falling into the criteria of CSR.
2. MNCs are hiding income and profit through off balance-sheet activities which is not part of main balance-sheet of MNCs so that de-facto and de-jure profit defers, there is enough space for increasing the share of CSR in profit from 2 percent to 3 percent at the same time when government reduced the corporate tax in October, 2019.
3. It should be enforced by competent regularity authority the discloser norms of CSR expenditure publically as well as in their annual reports locally and as well nationally.
4. MNCs should ensure the security of female workers at the workplace in a long period in a company because they have to leave work for family condition after certain period.

5. MNCs should have enforced for maternal benefits act-2017. So that, the women labour participation in MNCs can be enhanced. Therefore, women empowerment will be reinforced itself.
6. There should be optimal regulation for CSR expenditure; it is empirically proved that when government strictly enforced the reinvestment clause MNCs tend to move outside of the country. On the other hand, when government relaxes this norm MNCs tend to harm environmental sustainability through many MNCs as well as more production. Therefore, optimal regulation is required for taking both concerns.
7. RBI should calculate the amount of foreign investment based on respective states, not in respect of its regional head offices. There should be easy access and transparent database of MNCs. Because data related to MNCs Investment is a public goods which is characterized by non-rivalrous and non-excludable.
8. State government should measure how foreign investment is coming in their state for evaluation of cost and benefit at local level.