

## Foreign Direct Investment and Ease of Doing Business: Evidence from India's Manufacturing Sector

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### ABSTRACT

Foreign Direct Investment has emerged as an important source of capital formation, technology transfer and industrial development, particularly in developing economies such as India. A favourable business environment plays a significant role in influencing investment decisions, and the World Bank's Ease of Doing Business (EODB) framework has become an important measure for assessing the regulatory environment across economies. India has undertaken several business regulatory reforms over the last two decades, resulting in a considerable improvement in its Ease of Doing Business Score. During the same period, the manufacturing sector also witnessed a substantial increase in foreign direct investment inflows. The purpose of this paper is to examine the relationship between the Ease of Doing Business Score and Foreign Direct Investment in India's manufacturing sector during the period 2004–2020. The empirical results reveal a strong positive and statistically significant relationship between the Ease of Doing Business Score and manufacturing FDI in India. The study concludes that continued regulatory reforms, supported by effective industrial policies and institutional improvements, can further strengthen India's attractiveness as a preferred destination for manufacturing investment. The study employs descriptive statistics, correlation and simple linear regression using annual data from 2004-2020.

**Keywords:** Foreign Direct Investment, Ease of Doing Business, Manufacturing Sector, India, Business Environment, Regulatory Reforms.

### Introduction

The manufacturing sector has long been considered the backbone of India's economic development. It contributes significantly to industrial output, employment generation, exports and technological progress. A competitive manufacturing sector not only supports economic growth but also strengthens India's position in the global economy. For this reason, successive governments have introduced several policy initiatives to encourage investment and improve the sector's overall performance. Among these efforts, attracting Foreign Direct Investment (FDI) has remained a major policy priority, as foreign investment brings capital, advanced technology, managerial expertise and access to global production networks, thereby enhancing the competitiveness of domestic industries.

The ability of a country to attract FDI depends on several economic and institutional factors, including market size, macroeconomic stability, infrastructure, trade policies and the overall business environment. Among these, the ease with which businesses can establish and operate their activities has gained increasing attention in recent years. A transparent and efficient regulatory framework reduces the cost of doing business, improves investor confidence and creates a favourable environment for both domestic and foreign investment. Recognising the importance of these factors, the World Bank

introduced the *Doing Business* project in 2004 to assess the business regulatory environment across economies through the *Ease of Doing Business* framework.

During the last two decades, India implemented a number of reforms to simplify business regulations and improve the investment climate. These reforms resulted in a steady improvement in the country's Ease of Doing Business Score. At the same time, manufacturing FDI inflows also increased considerably. Although these developments appear to move in the same direction, it is important to examine whether improvements in the business environment were actually associated with higher foreign investment in the manufacturing sector.

Previous studies have identified several determinants of FDI, including market potential, trade openness, institutional quality and regulatory reforms. Likewise, a growing body of literature has examined the relationship between the Ease of Doing Business and FDI across countries. However, relatively few studies have specifically investigated this relationship for India's manufacturing sector using annual time-series data. Since manufacturing occupies a central position in India's industrial development strategy, sector-specific evidence is important for understanding whether improvements in the business environment are associated with increased foreign investment in this sector. Therefore, the present study examines the relationship between the Ease of Doing Business and Foreign Direct Investment in India's manufacturing sector during the period 2004–2020. The study uses the World Bank's Ease of Doing Business Score as a measure of the business environment and manufacturing FDI inflows as the indicator of foreign investment.

### Review of Literature

**Djankov et al. (2001)** empirically investigated business entry regulation in 85 countries using indicators such as the number of procedures, time, and cost required to start a firm. The study finds that excessive entry regulation does not lead to better social outcomes, improved quality standards, or enhanced competition. Instead, stricter regulation is strongly associated with higher corruption levels and a larger informal economy, supporting the public choice view of regulation.

**Djankov et al. (2006)** this paper examines the relationship between business regulations and economic growth across 135 countries using World Bank Doing Business indicators, including starting a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts, and closing a business. The study found that countries with simpler and more efficient regulations achieve faster economic growth. Better regulations reduce difficulties for businesses and create a favourable business environment. The authors concluded that improving ease of doing business through regulatory reforms can support investment and long-term economic development.

**Demirhan and Masca (2008)** examined the determinants of FDI inflows in the developing countries based on cross-sectional data of 38 countries between the years 2000 and 2004. The findings show that the economic growth, infrastructure development and trade openness positively and significantly affect FDI inflows. It also concludes that investors are more attracted to the economies that are better in terms of growth potential than the economies with large markets. On the whole, the results highlight the significance of macroeconomic stability and favourable conditions of policies in the attraction of foreign investment.

**Bayraktar (2013)** studied the correlation between foreign direct investment (FDI) and investment climate with special reference to Ease of Doing Business indices of countries between the year 2004 and 2010. The research concludes that those countries that have good business environments are likely to attract higher levels of FDI inflows. The analysis indicates that FDI has been moving towards developing economies more than the developed economies, because of the bettering of business regulations in these countries. Nonetheless, macroeconomic conditions like market size and growth remain significant in addition to regulatory conditions.

**Corcoran & Gillanders (2014)** examined the effect that a country's business regulatory environment has on the amount of FDI it attracts. It found that better trade across borders is the main factor attracting FDI. However, the effect is not universally observed in Sub-Saharan Africa or the OECD. The study suggests that global competition is a significant factor in attracting FDI. The study also found that being in a cluster with good trade regulation improves a country's ability to attract FDI, while being in a neighborhood with bad general regulation reduces it. The study suggests that improving business regulatory environments is a viable policy.

**Chawla and Bhatia (2017)** addressed that regulatory simplification, transparency and institutional efficiency are key factors in promoting entrepreneurship and enhancing investment climate. The government programs which include Make in India, Digital India, and Startup India are labeled as significant reforms which focus on increasing business facilitation.

**Mahuni and Bonga (2017)** analysed the nexus between EODB indicators and FDI inflows in Zimbabwe through time-series analysis. The results show that regulatory quality and business environment reforms are important in the determination of FDI inflows. The paper has identified institutional inefficiency, high transaction cost, and infrastructural constraints as a factor that lowers the confidence of investors, hence, restricting the attraction of FDI.

### Research Gap

Although several studies have examined the relationship between Ease of Doing Business and FDI across countries, most have focused on aggregate FDI inflows or cross-country comparisons. Limited attention has been given to India's manufacturing sector using annual time-series data. Moreover, previous studies have generally relied on the Ease of Doing Business ranking or selected indicators rather than examining the overall Ease of Doing Business Score in relation to manufacturing FDI. The present study addresses this gap by analysing the relationship between the Ease of Doing Business Score and manufacturing FDI in India during 2004–2020.

### Research Objective

To examine the relationship between Ease of Doing Business score and Foreign Direct Investment in India's Manufacturing Sector during the period 2004-2020.

### Research Methodology and Data Sources

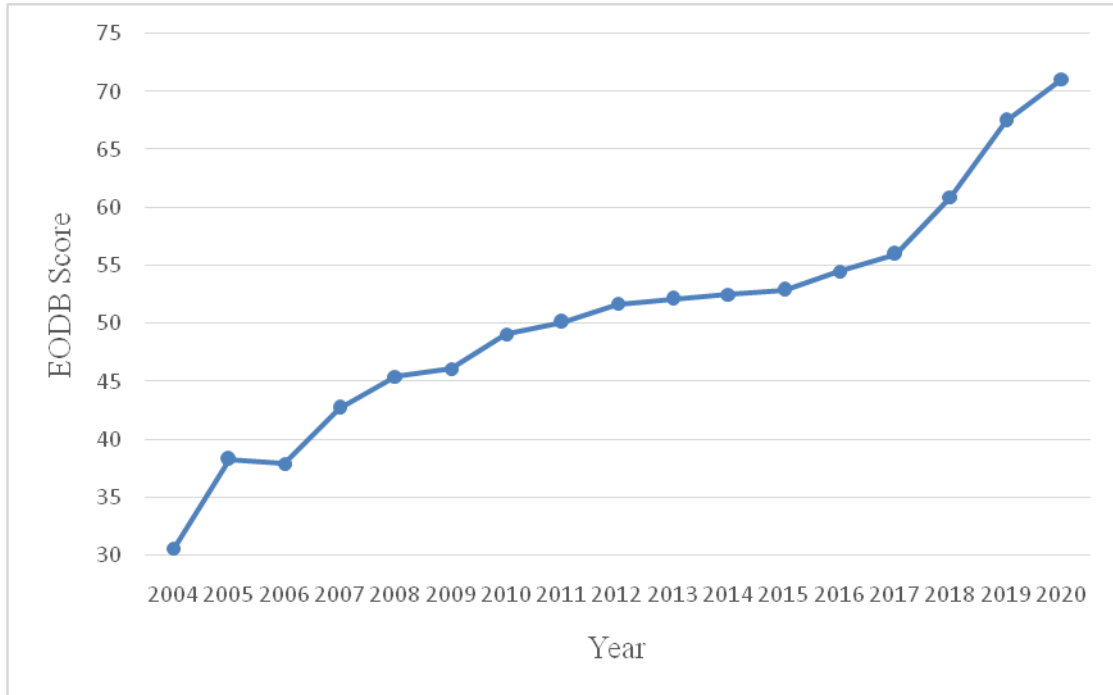
This study adopts a quantitative research approach to examine the relationship between the Ease of Doing Business (EODB) Score and Foreign Direct Investment (FDI) in India's manufacturing sector. The analysis is based on secondary data collected from the World Bank's *Doing Business Database* and the Reserve Bank of India's Annual Reports. The EODB Score is used as the independent variable, while manufacturing FDI inflows (US\$ million) serve as the dependent variable. Trend analysis, descriptive statistics, Pearson's correlation and simple linear regression are employed to analyse the data and assess the relationship between the two variables.

### Data Analysis

**Table 1: Year wise Manufacturing FDI and EODB Score of India**

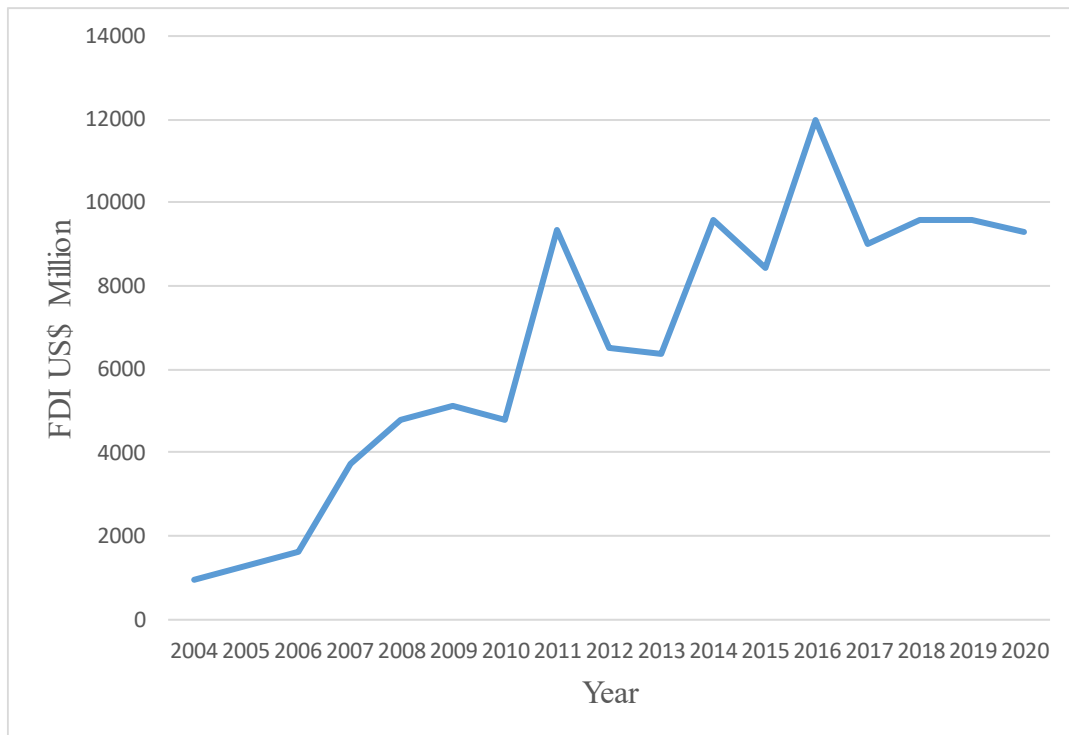
Year	FDI In Manufacturing Sector in US\$ Million	EODB Score (0-100)
2004	924	30.6
2005	1257	38.3
2006	1641	37.9
2007	3726	42.7
2008	4777	45.4
2009	5143	46.1
2010	4793	49.1
2011	9,337	50.1
2012	6,528	51.7
2013	6,381	52.1
2014	9,613	52.5
2015	8,439	52.9
2016	11,972	54.5
2017	9,000	56.0
2018	9,600	60.9
2019	9,600	67.5
2020	9,300	71.1

Source: Compilation from World Bank Doing Business Reports and Annual RBI Reports



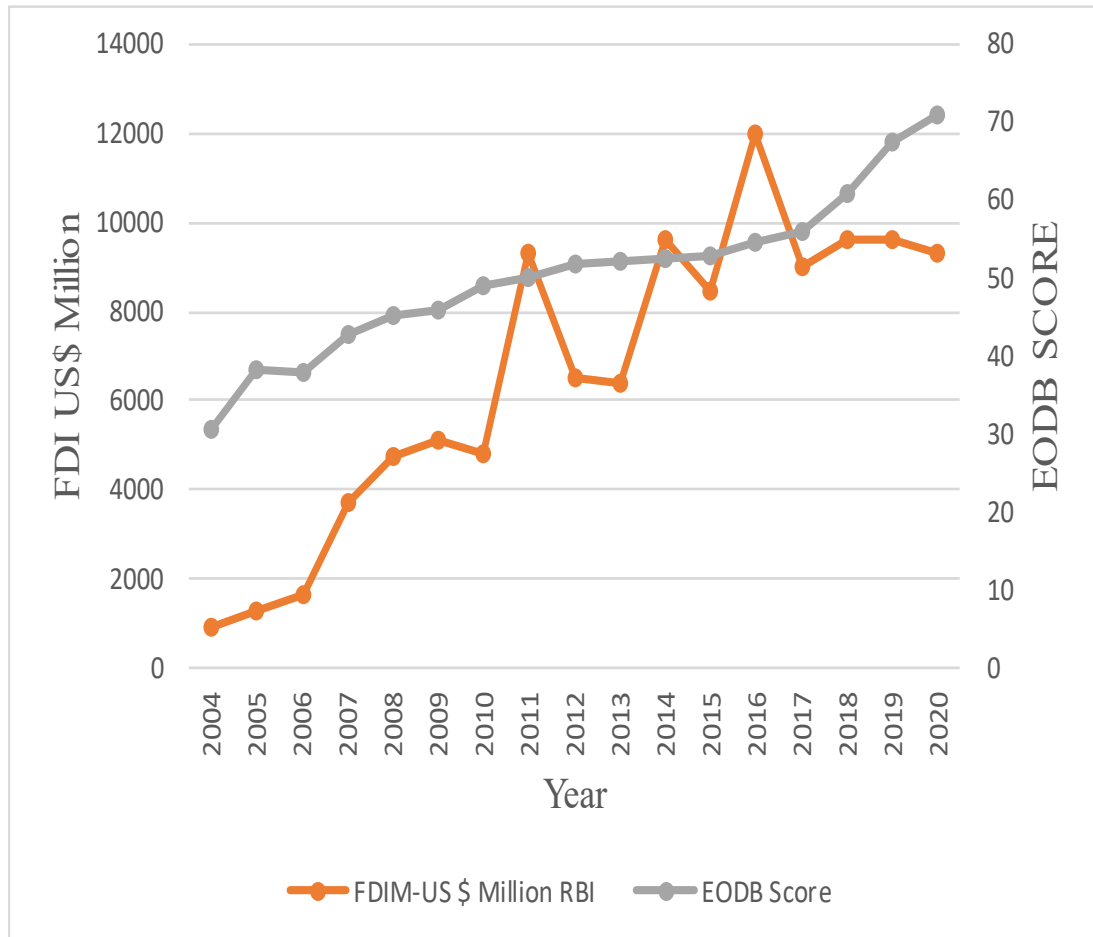
**Figure 1: Year wise Trend of EODB Score**

Source: Own creation from Table 1 Data



**Figure 2: Trend in Manufacturing FDI Inflows in India**

Source: Own creation from Table 1 Data



**Figure 3: Manufacturing FDI and EODB Score**

Source: Own creation from Table 1 Data

Figure 1 shows the trend in India's Ease of Doing Business (EoDB) Score from 2004 to 2020. The score increased steadily from 30.6 in 2004 to 71.1 in 2020, indicating a continuous improvement in the country's business environment. The improvement was gradual during the initial years but became more noticeable after 2016, reflecting the impact of several business reforms introduced by the Government of India. These reforms were aimed at simplifying business regulations, improving administrative efficiency and making India a more attractive destination for investment. Overall, the figure suggests that India made consistent progress in creating a more business-friendly environment during the study period.

Figure 2 presents the trend in manufacturing FDI inflows in India between 2004 and 2020. The overall trend shows a significant increase, with FDI rising from US\$ 924 million in 2004 to US\$ 9,300 million in 2020. However, the growth was not uniform throughout the period. While there were years of rapid increase, such as 2011 and 2016, there were also temporary declines in 2012, 2013 and 2017. The highest manufacturing FDI inflow was recorded in 2016, reaching US\$ 11,972 million. These fluctuations suggest that although India became increasingly attractive to foreign investors, manufacturing FDI was also influenced by factors such as global economic conditions, investor confidence and sector-specific developments. Nevertheless, the long-term trend clearly indicates growing foreign investment in India's manufacturing sector.

Figure 3 compares the movement of the Ease of Doing Business Score with manufacturing FDI over the study period. Both variables generally follow an upward trend, although manufacturing FDI shows greater year-to-year fluctuations than the EODB Score. As India's business environment improved, manufacturing FDI also increased over time, suggesting a positive relationship between the two. However, the figure also shows that improvements in the EODB Score did not always result in immediate increases in manufacturing FDI. For example, after 2016 the EODB Score continued to improve, while FDI remained relatively stable. This indicates that although a favourable business environment plays an important role in attracting investment, manufacturing FDI is also influenced by other economic and policy-related factors. Therefore, statistical analysis is required to determine the strength of this relationship.

### Statistical Analysis and Results

**Table 2: Descriptive Statistics**

	Mean	Std. Deviation	N
FDIM-US \$ Million RBI	6590.0588	3374.89553	17
EODB Score	50.55294	10.287803	17

Source: SPSS Software output

The mean value of FDI inflows in the manufacturing sector is US\$ 6,590.06 million, with a standard deviation of US\$ 3,374.90 million, indicating substantial variation across the study period. The Ease of Doing Business score has an average value of 50.55 with a standard deviation of 10.29, reflecting noticeable changes in India's business regulatory environment over a period of time.

**Table 3: Correlation between Variables**

		FDIM-US \$ Million RBI	EODB Score
Pearson Correlation	FDIM-US \$ Million RBI	1.000	.833
	EODB Score	.833	1.000
Sig. (1-tailed)	FDIM-US \$ Million RBI		.000
	EODB Score	.000	

Source: SPSS Software output

It is revealed from the results that significant correlation is available between Ease of Doing Business score and FDI inflows in the manufacturing sector. Correlation coefficient is 0.833, indicating a strong positive association. The relationship is statistically significant at the 5% level, as the p-value is less than 0.05.

**Table 4: Results of Regression Model**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.833 <sup>a</sup>	.694	.673	1928.95921	.694	33.977	1	15	.000

a. Predictors: (Constant), EODB Score  
b. Dependent Variable: FDIM-US \$ Million RBI

Source: SPSS Software output

The R-square is 0.694 and the adjusted R-square is .673, which indicates that 67.3% variability in the dependent variable FDI in manufacturing sector is explained by the model.

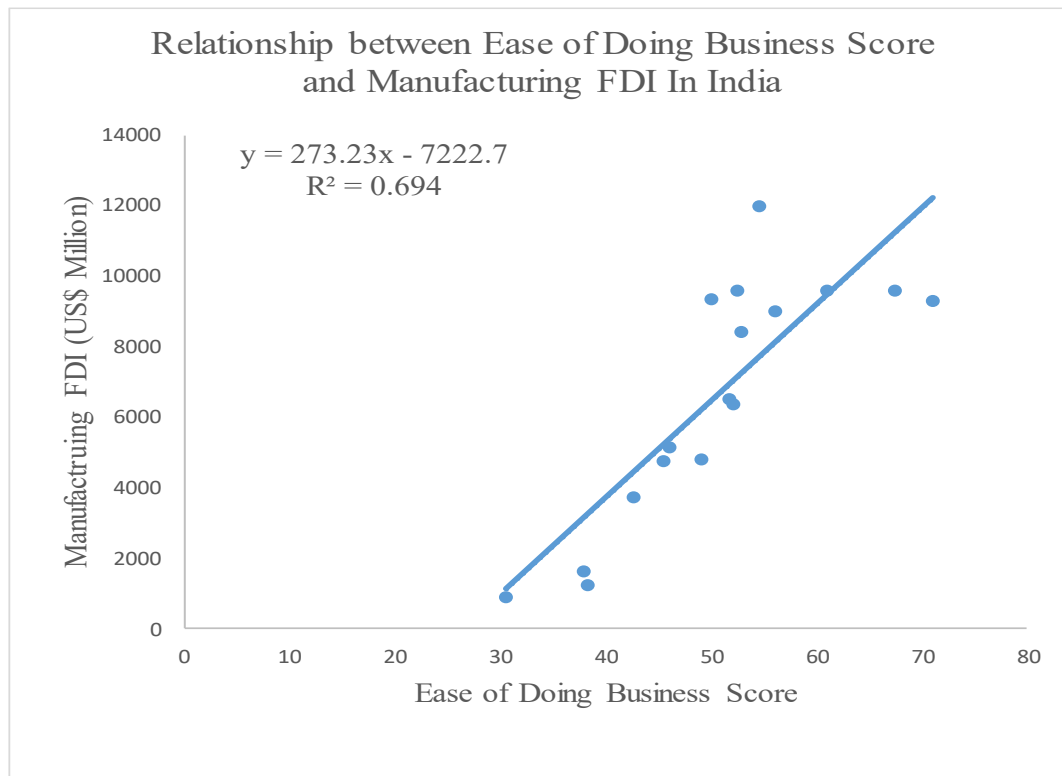
**Table 5: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	-7222.720	2415.4066		-2.990	.009			
	EODB Score	273.234	46.875	.833	5.829	.000	.833	.833	.833

Source: SPSS Software output

From the table 5 the relationship between EODB Score and FDI Inflow in Manufacturing Sector in India (FDIM US \$ Million) can be expressed in the equation form as:

$$\text{FDI Inflows in Manufacturing Sector} = -7222.720 + 273.234 \times (\text{EODB SCORE})$$



**Figure 4: Relationship between Ease of Doing Business Score and Manufacturing FDI in India**  
**Findings and Discussion**

The findings of the study show a strong and positive relationship between the EODB Score and FDI in India's manufacturing sector. The correlation and regression results indicate that improvements in the regulatory environment measured by the EODB Score were associated with higher manufacturing FDI inflows. This suggests that business reforms aimed at simplifying regulations and improving the investment climate have helped make India more attractive to foreign investors.

The results are consistent with the findings of earlier studies. Bayraktar (2013) reported that countries with a better business environment are more likely to attract higher FDI inflows. Similarly, Corcoran and Gillanders (2014) and Mahuni and Bonga (2017) found that improvements in business regulations and institutional quality play an important role in encouraging foreign investment. The findings of the present study support these conclusions in the context of India's manufacturing sector.

However, manufacturing FDI did not increase at the same pace every year, even though the EoDB Score improved continuously. This suggests that while a better business environment is an important factor in attracting foreign investment, it is not the only determinant. Other factors such as market size, economic growth, global economic conditions, exchange rate movements and sector-specific government policies may also influence manufacturing FDI. Therefore, improvements in the business environment should be supported by broader economic and industrial policies to sustain higher foreign investment.

#### **Limitations of the Study**

The study is limited to the period 2004–2020 because the World Bank published the Ease of Doing Business Score only up to 2020. Therefore, the analysis does not cover developments after 2020. The study considers only the overall EODB Score and does not examine the impact of individual EODB indicators. In addition, other factors such as infrastructure, market size and government policies, which may also influence manufacturing FDI, were not included in the analysis. Therefore, the findings should be interpreted within these limitations.

## Conclusion

This study found a strong and statistically significant positive relationship between the Ease of Doing Business Score and Foreign Direct Investment in India's manufacturing sector during 2004–2020. The results indicate that improvements in the business environment were associated with higher manufacturing FDI inflows. These findings suggest that business regulatory reforms have contributed to making India a more attractive destination for foreign investors. However, the fluctuations in FDI during some years indicate that investment decisions are also influenced by other economic and policy-related factors. Therefore, continued regulatory reforms, supported by improvements in infrastructure and institutional efficiency, can further strengthen manufacturing investment and contribute to India's long-term industrial development.

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