Their and skilled labour force attracts fdi.

Their final decision depends upon relative weight of the two.

The investors bring in FDI so long as the probability of higher profitability outweighs the risk factor. More specifically, some of the salient considerations weighing with the investors include the following: (i) Scope for Cutting Costs: An opportunity of cutting costs and thus adding to competitive strength attracts FDI. Business costs depend upon a large variety of factors including the following:

Input Costs:

Thus, for example, low-wage and skilled labour force attracts FDI. Labour laws which favour employers are a further incentive. Other major sources of economy in costs include easier and assured availability of inexpensive inputs and energy, low rentals for land and office accommodation, and the like.

Marketing Costs:

Proximity of markets reduces the marketing and selling costs. They also reduce the cost of after-sales services.

Infrastructure:

Infrastructure plays a crucial role in operative efficiency of an enterprise.

A cost-effective and efficient infrastructure reduces uncertainties of production and marketing schedules. It helps in improving product-quality and lowering costs. Inferior quality of infrastructure in developing economies tends to discourage FDI inflows. It is on account of better infrastructure that

Europe (in spite of higher wages) continues to be a preferred destination for FDI from USA.

Tax Provisions:

Another major source of cost cutting can be tax savings in some form or other. These may include, for example, moving behind high, protective tariff walls and thus saving on import duties and other related expenses.

Similarly, if domestic tax provisions favour investment and consumption, investment becomes more profitable. Some petroleum exporting countries do not have income tax and other corporate taxes, and this becomes an added attraction for inflow of FDI. Some countries extend tax concessions to production for exports. This provision acts as an incentive for a foreign investor to set up production facilities in that country and export from there.

It is noteworthy that some countries, through their benevolent tax policy, have succeeded in becoming major centres of international trade. (ii) Administrative Set Up: As pointed out earlier, inflow of FDI has to contend with the administrative machinery of the host country. Therefore, the volume and pattern of inflow of FDI is closely influenced by the treatment received by investors at the hands of the bureaucracy. Inflow of FDI is facilitated if the legal framework is simple and transparent and if the administrative machinery does not create unnecessary hurdles and delays.

An over-regulating administration breeds corruption and delays, adds to business expenses and, therefore, discourages FDI. The UN World Investment Report (WIR), 2003, stresses that there is very close linkage between FDI and domestic policy. Both the nature and amounts of FDI inflows are influenced by the way in which a host economy is run. (iii) Institutional Framework: Institutional and legal framework faced by investors should not be time consuming and should be fair to all the parties concerned including the investor, the dealers, the consumers and the state.

(iv) Official and Popular Attitude: Fear of nationalisation and other hostile activities by the local population act as major deterrents to FDI. A country may choose not to allow FDI at all, or allow it under certain restrictions. But all such conditions and commitments should be transparent and honestly honoured. (v) Facilities for Repatriation: Facilities for repatriation of their earnings are a major consideration with foreign investors. Therefore, a legal framework which permits this, together with convertibility of domestic currency is helpful in attracting FDI.

The Host Country:

The authorities of a country are assumed to be motivated by national interest.

However, national interest is a multidimensional and dynamic concept with overlapping contents. Promoting and protecting it needs clarity of objectives together with a judicious mixture of flexibility and firmness of approach on the part of the state. Accordingly, the boundaries and limits set for FDI, the facilities extended to it, and so on, need to be worked out in sufficient detail. By way Of example, we can mention that most countries try to ensure that FDI does not endanger their sovereignty, defence, health and food security, etc.

Accordingly, FDI in defence establishments and some other sensitive field's remains closed to it. Its inflow is preferred into capital goods, engineering, communications, upper-end consumer goods, transport etc. However, with the growth of the economy of the host country, field of FDI is also extended to cover financial, health and other sectors.