

**Infrastructure and FDI:
Evidence from district-level data in India**

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Though public infrastructure – physical and financial – is widely believed to play a critical role in attracting Foreign Direct Investment (FDI), identifying this effect remains a challenge. In this paper, we use unique data to identify this effect by exploiting purely cross-sectional variation among approximately 600 districts in India. We examine the effect of infrastructure in 2001 on cumulative FDI flows into the district during 2002-07. Using panel regressions that include state fixed effects, we employ a two-pronged identification strategy. First, we test by netting out average (and maximum) FDI inflows into surrounding districts. Second, we exploit variation among different sectors within a district depending upon the sector's propensity to attract FDI. Since our variables vary primarily at the district level, these tests together control for all omitted variables at the district level. Surprisingly, we find that FDI inflows remain insensitive to changes in infrastructure till a threshold is reached; thereafter, FDI inflows increase steeply with an increase in infrastructure.

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