ABSTRACT
The process of global economic integration is not a recent phenomenon. Spectacular progress was achieved in this direction during the 19th century, which was largely unraveled by the two world wars and the great depression in the 20th century. After the Second World War, major powers like the United States, the emergent Japan and the Western European countries undertook the intricate tasks of promoting international trades and monetary systems. The process underwent rapid acceleration since the mid-1980s and was mainly driven by two important factors namely, technological revolution and liberalization policies of the governments of many nations of the world. The past three decades have witnessed increased trade and financial openness in both developed and developing countries of the world. While in the developing nations trade openness has increased sharply than financial openness, in the industrial nations the increase in the later is greater compared to the former.

Foreign Direct Investment (FDI) is one of the most important forms of international capital flows across nations and has been one of the most significant factors in the process of economic development of many capital scarce countries of the world; where the domestic base of technology, skills and entrepreneurship are quite limited in supply. In these countries FDI serves as an engine of economic growth, helps technological development, augments foreign exchange reserves, improves management and organizational competencies and also has spillover effects on the rest of the economy. The FDI inflows to India became significant under the new policy framework which dates back to the year 1991 and it plays a much larger role in accelerating the economic development of the country in the recent years.

Keywords: Foreign Direct Investment; Gross Domestic Product; Consumer Price Index; Trade Openness and Exchange Rate

INTRODUCTION
Foreign direct investment in India's services sector dipped 7.5% to $1.22 billion in the first half of the current financial year. The services sector, which includes banking, insurance, outsourcing, R&D, courier and technology testing, had received FDI worth $1.32 billion during April-September 2013-14, the data by Department of Industrial Policy and Promotion shows.

The services sector contributes over 60% to GDR In 21\textsuperscript{13-14}, foreign investment in the sector fell to $2.2 billion from $4.7 billion in 31\textsuperscript{13-14}.

The government is taking several measures to boost foreign inflows, according to an official. The bill to hike FDI cap in insurance sector to 49% from the current level of 26% is pending in the Rajya Sabha. The other sectors that have recorded decline in foreign investment during the first two quarters of this financial year include construction and metallurgical industries.
During April-September of this fiscal, foreign investments showed a growth of 15% to $14.47 billion as compared to $12.59 in the same period last year. During the period, India received maximum FDI from Mauritius at $4.19 billion, followed by Singapore.

LITERATURE REVIEW

Several empirical researches have been conducted to examine factors determining FDI inflows in the home countries and have established linkage between economic, social and political variables. The key literature includes work done by Dunning (1993), which identified three important categories of variables that influence FDI flows in to home countries. Those are:

1. Economic,
2. Social or Cultural and
3. The Political Environment.

Dunning concluded that the major determinants causing FDI flows are market size and growth, gross domestic product, low production cost and political stability. A brief review of literature in this regard is presented here. Many of the studies conducted till date found size of the market as an important explanatory variable of FDI inflows in developing countries. Asiedu (2002) applying the Least Square Technique found Gross Domestic Product (GDP), Return on Investment (ROI) and Trade Openness are significant variables for FDI flows. Garibaldi et al., (2002) in his study on FDI and portfolio investment flows to.

Quasi and Mahmud (2004) found that economic freedom, openness, prosperity, human capital and lagged FDI made positive impacts of FDI flow into South Asia. The study by Nonnenberg and Mendonca (2004) for 33 developing countries finds Gross National Product (GNP), availability of skilled labour, receptivity of foreign capital; country risk rating and stock market behavior serve as important determinants of FDI flows to those countries. Naeem, Iiaz, and Azam (2005) used time series data from 1970-71 to 1999-2000 for Pakistan and found that the influencing factors of FDI inflows to the country are market size, domestic investment, trade openness, indirect taxes, inflation and external debt. Nunes et al., (2006) found that market size, openness of the economy; infrastructure, inflation, human capital, wages and natural resources are the determinants of FDI flows in the context of Latin American countries. Study conducted by Sahoo (2006) finds that market size, growth of labour force, infrastructure index and trade openness are the important determinants of FDI flows in South Asian countries. Study by Vijaykumar, Sridharan and Rao (2010) on the determinants of FDI in BRICS countries found that market size, labour cost, infrastructure, currency value and gross capital formation as potential determinants of FDI inflows to BRICS countries. However, their study revealed that economic stability, growth prospects and trade openness appears to be insignificant determinants of FDI inflows to BRICS nations. Hooda (2011) using Ordinary Least Squares (OLS) method found that trade GDP, research and development GDP, financial position, exchange rate, foreign exchange reserve and GDP are the important macro-economic determinants of FDI inflows to India. Sahni (2012) found that GDP, trade openness and inflation exhibit a positive relationship with FDI inflows to India. Thus the above reviews of literature gives direction to choose the cause variables those can explain the FDI inflows into India.

OBJECTIVES

The objectives, study period, data source, variables and model specification, have been discussed in this section.

The study has two fold objectives as follows:

1. To examine the trend of Foreign Direct Investment (FDI) inflows into India over the period 1991 to 2014.
2. To analyze the major determinants of inward Foreign Direct Investment in India applying the Ordinary Least Square (OLS) technique; considering Gross Domestic Product, Consumer Price Index, Trade Openness, Exchange Rate, Foreign Exchange Reserves and Domestic Capital Formation as the explanatory variables and identify those contributing significantly to FDI inflows into India.

METHODOLOGY

Period of the Study

Time-series data on the above variables is taken from the period 1991 to 2014 for analysis. The model tries to identify the significant determinant variables of Foreign Direct Investment in the Indian economy based on the secondary data sources.

Data Source

Varied data sources are referred for the study purpose. The major data sources are: Investment Country Profiles India, March 2014,UNCTAD, Hand Book of Statistics on the Indian Economy, 2012-14) Reserve Bank of India. The yearly Consumer Price Index (CPI) for the Indian economy has been obtained from the online data source:

CONCLUSION

Foreign Direct Investment not only acts as an instrument of international capital flow but also serves as a very important source of technological and productivity (helps achieving higher level of production via positive externalities) spillovers; particularly in the context of the Less Developed Countries (LDCs) of the world. Policy makers, academicians and researchers around the world struggle that FDI can have important positive effects on host countries development efforts (Alfrao; 2003). It goes without saying that in the contemporary Liberalized, Privatized and Globalized (LPG) environment FDI plays a significant role in the process of their economic development, technological advancements and practice of up to date management and marketing techniques in the recipient nations. This phenomenon is clearly observed in many developing nations across the world. When domestic resources are short to finance the development needs, FDI appears as an important source of external finance for the low income countries like India. However, the inflows of FDI to the home countries are determined by various socio-economic and political factors in the recipient countries. Based on the choice variables, data and model specification; our study finds that the economic determinants such as Gross Domestic Product, Consumer Price Index, Trade Openness, Exchange Rate and Foreign Exchange Reserves have positive impacts on FDI inflows into India. Further, the macro-economic determinants having significant influence on FDI inflows into the country are found to be Foreign Exchange Reserves and Consumer Price Index. During 1991-92 India's Foreign Exchange Reserve was around 3.89 per cent of its GDP and by 2011-12 it was around 18.03 percent (estimated from the Handbook of Statistics on the Indian Economy, RBI, 2013-14) which is 4.63 times higher. In the OLS model the coefficient of the variable FOREX has taken a positive value and has appeared to be statistically significant. This provides empirical evidence that India's better external payment position has built confidence in foreign investors’ and there by greater FDI inflows into the country. CPI has appeared to be the second significant variable having positive impact on FDI inflows into India. The average inflation in India during the period was estimated around7.54 per cent with a standard deviation of 3.11 percent. Perhaps this degree of inflation has created opportunity for foreign investors to gain an appropriate return on FDI. Though the variables Gross Domestic Product, Trade Openness and Exchange Rate show direct relationship with FDI and support the existing literature on the determinants of FDI inflows, the estimated coefficients did not appear statistically significant in the model used in our study.
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