1. INTRODUCTION

Economic Development is a complex and comprehensive issue. So many factors physical and non-physical play their distinct role in the process of Economic Development. Notwithstanding the role and importance of other contributory factors, availability of Infrastructure has its own distinct role to play in the process of Economic Development.

Development of Infrastructure calls for massive volumes of investment. Most of the developing economies invariably find it difficult to arrange for the desired quantum of investment for developing appropriate level of Infrastructure in a country. This is precisely why experience overseas suggests that almost all the economies have to resort to Foreign Direct Investment in its various forms and quantum. Foreign Direct Investment plays a major role in accelerating the pace of Economic Development in some of the developing economies. Multinational Corporations, are widely recognized as decisive across borders, and therefore are welcomed by the developing host countries.

FDI is an important source for economic growth of India, bringing capital investment, technology knowledge and management in India from foreign economies. FDI helps improve growth rate of Indian economy, a tendency of upward trend is clearly reflected in the micro analysis of performance during different planning years. This paper aims at studying the relationship between FDI and economic growth in India. FDI was introduced in India in the year 1991 through economic reforms. The employment level in the agriculture and industrial sector has gone down in the recent times, inevitably putting the policy makers to the task of creating employment opportunities. A policy was articulated to use FDI the way China had done to
enhance its economic growth. India must also take more and more investment to industrialize, especially the rural sector of Indian Economy.

The role of FDI in the growth process of a country has been a topic of debate in several countries including India. FDI is an important factor of globalization. The growth of international production is driven by economic and technological forces today. It is also driven by the ongoing liberalization which opens to Foreign Direct Investment (FDI). One outstanding feature of the present day world is the circulation of private capital in the form of FDI in developing countries, in the context of India since 1990. In 1980s, multinational corporations (MNCs) came out as major actors in the world economy through the channel popularly known as globalization. Governments around the world, in both advanced and developing countries have been attracting MNCs for their FDI. This experience of globalization relates to the broader context of liberalization in which most developing and transition countries have moved to market oriented strategies. In this context, globalization offers an unparalleled opportunity for developing countries like India to attain quicker economic growth through trade and investment. In the middle of the 1980s, by transferring technologies and establishing marketing and procuring networks for efficient production and sales internationally, FDI gained importance.

FDI flows consist of capital provided by foreign investors, directly or indirectly to enterprises in other countries with an expectation of obtaining profits derived from that capital. Through FDI the foreign investors acquire ownership of assets in the host country firms in proportion to their equity holdings.

It is apparent from the above discussion that FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study will attempt to analyze the
important dimensions of FDI in India. The study will work out the trends and patterns, main
determinants and investment flows to India. The study will also examine the role of FDI on
economic growth in India for the period 1991-2012. The period under study is important for a
variety of reasons. First of all, it was during July1991 India opened its doors to private sector and
liberalized its economy. Secondly, the experiences of South-East Asian countries by liberalizing
their economies in 1980s became stars of economic growth and development in early 1990s.
Thirdly, India’s experience with its first generation economic reforms and the country’s
economic growth performance were considered safe havens for FDI which led to second
generation of economic reforms in India in first decade of this century. Fourthly, there is a
considerable change in the attitude of both the developing and developed countries towards FDI.
They both consider FDI as the most suitable form of external finance. Fifthly, increase in
competition for FDI inflows particularly among the developing nations.

The shift of the power center from the western countries to the Asia sub – continent is yet
another reason to take up this study. FDI incentives, removal of restrictions, bilateral and
regional investment agreements among the Asian countries and emergence of Asia as an
economic powerhouse (with China and India emerging as the two most promising economies of
the world) develops new economics in the world of industrialised nations. The study is important
from the view point of the macroeconomic variables included in the study as no other study has
included the explanatory variables which are included in this study. The study is appropriate in
understanding inflows during 1991-2012.