

IMPACT OF ECONOMIC REFORMS ON FDI IN INDIA

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ABSTRACT

The process which is marked by phenomenal increase in the private capital flows across the world, aided by information and communication technology by transnational corporations is known as globalisation. In a globalised world national economies are interlocked, commercial banking and business ownership are controlled by global corporation which transcend economic borders, international trade is integrated and financial markets are connected through instant computer link up. Globalization is a dynamic process of liberalization, openness, and international integration across a wide range of markets, from labor to goods and from services to capital and technology. Globalization is based upon the freedom to trade with the rest of the world and to capitalize on each country's comparative advantage, the freedom to invest where returns on capital are greatest. Various waves of globalisation have been sweeping the world in the last few centuries. An important aspect of globalisation during the last 20 years has been the impressive surge of foreign direct investment to less developed countries that have initiated economic reforms. Undeniably, FDI constitutes an important factor facilitating the globalization process in the world. The growing worldwide trend towards globalization of economic activity has increased the importance of multinational enterprises, the chief vehicle of FDI, in the development process of a country. The inflow of Foreign Direct Investment (FDI) increased rapidly during the late 1980s and the 1990s in almost every region of the world stimulating the long term and contentious debate about the costs and benefits of FDI inflows.

Until the 1980s, most developing countries viewed foreign direct investment (FDI) with great wariness. The presence of multinational corporations (MNCs) was perceived to invade on national sovereignty and security (Sumon). The foreign-based center of decision making and international mobility raised suspicions about MNC's commitment to the host economy. The sheer size and magnitude of FDI by MNCs was viewed as a threat to host countries, raising concerns about MNC's capacity to influence economic and political affairs. These fears were driven by the colonial experience of many developing countries and by the view that FDI was the modern form of economic colonialism and exploitation.