

Foreign Capital and Economic Growth



Part A

What is Foreign Capital?

- ❖ The term '**Foreign capital**' is a comprehensive term and includes any inflow of **capital** in home country from abroad
- ❖ **Foreign capital** is useful for both developed and developing countries
- ❖ Advanced countries try actively to invest **capital** in developing countries.

What is the Role of Foreign Capital?

- ❖ **Foreign capital** not only provide an addition to the domestic savings and resources, but also an addition to the productive assets of the country
- ❖ The country gets **foreign** exchange through FDI
- ❖ It helps to increase the investment level and thereby income and employment in the recipient country

Why do we need Foreign Capital?

- ❖ The **need** for **foreign capital** arises because of the following reasons:
- ❖ **Foreign capital is needed** to fill the gap between the targeted **foreign** exchange requirements and those derived from net export earnings plus net public **foreign** aid
- ❖ This **is** generally called the **foreign** exchange or trade gap.

Forms of Foreign Capital

- ❖ Foreign Capital in developing countries come in four forms:
- ***Foreign Aid*** - borrowing at concessional rates of interest from foreign government and international institutions such as International Monetary Fund and World Bank
- ***External Commercial Borrowing***- borrowing from International Financing Institutions at commercial rates

Forms of Foreign Capital

- ***Private Portfolio Investment***- buying of shares and debentures of domestic companies by foreign investors
- ***Foreign Direct Investment (FDI)*** - which means direct investment in plant, equipment of industries either on their own or in collaboration with the domestic private companies

To be Continued...

Thank You