

Foreign Capital and Economic Growth



Importance of Foreign Capital

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- ❖ In the early stages of industrialisation in any country foreign capital plays an important role
- ❖ Their importance can be better understood under the following heads:
 1. **Increase in Resources:** Foreign capital not only provides an addition to the domestic savings the 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.

2. Risk Taking

- ❖ Foreign capital undertakes the initial risk of developing new lines of production
- ❖ It has with it experience, initiative, resources to explore new lines
- ❖ If a concern fails, losses are borne by the foreign investor

3. Technical Know-How

- ❖ Foreign investor brings with him the technical and managerial know how
- ❖ This helps the recipient country to organise its resources in most efficient ways i.e. the least costs of production methods are adopted
- ❖ They provide training facilities to the local personnel they employ

4. High Standards

- ❖ Foreign capital brings with it the tradition of keeping high standards in respect of quality of goods, higher real wages to labour and business practices
- ❖ Such things not only serve the interest of investors, but they act as an important factor in raising the quality of product of other native concerns

5. Marketing Facilities

- ❖ Foreign capital provides marketing outlets
- ❖ It helps exports and imports among the units located in different countries financed by same firm

6. Reduces Trade Deficit

- ❖ Foreign capital by helping the host country to increase exports reduces trade deficit
- ❖ The exports are increased by raising the quality and quantity of products and by lower prices

7. Increases Competition

- ❖ Foreign capital may help to increase competition and break domestic monopoly
- ❖ Foreign capital is a good barometer of world's perception of a country's potential
- ❖ It is rightly said that a satisfied foreign investor is the best commercial ambassador a country can have

Conclusion

- ❖ To sum up, foreign capital helps three important areas that are necessary for the economic development of a country
- ❖ These three areas are
 - A. Savings,
 - B. Trade and
 - C. Foreign exchange and technology

Conclusion

- ❖ Foreign capital performs three gaps filling function i.e.,
 - (i) Savings gap
 - (ii) Trade gap
 - (iii) Technological gap in the recipient country's economy
- ❖ It encourages development of technology, managerial expertise, and integration with other economies of the world, export of goods and services and higher growth of country's economy

Thank You