

Foreign Capital and Economic Growth



Need for Foreign Capital

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Following arguments are advanced in favour of foreign capital:

1. *To Sustain a High Level of Investment:*

- ❖ For the industrialisation of underdeveloped countries, it is necessary to raise the level of their investments substantially
- ❖ This requires in turn a high level of savings. Because of general poverty, the savings are often very low
- ❖ Hence there is a gap between investments and savings. This gap can be filled up through foreign capital

2. To Fill the Technological Gap

- ❖ The underdeveloped countries have very low level of technology as compared to the advanced countries
- ❖ This raises the necessity for importing technology from the developed countries

3. To Undertake the Initial Risk

- ❖ Many underdeveloped countries suffer from acute scarcity of private entrepreneurs
- ❖ This creates obstacles in the programmes of industrialisation
- ❖ But once the programme of industrialisation gets started with the initiative of foreign capital, domestic industrial activity starts picking up, as more and more people of the host country enter the industrial field

4. To Exploit the Natural Resources

- ❖ A number of underdeveloped countries possess huge mineral resources which await exploitation
- ❖ These countries themselves do not possess the required technical skill and expertise to accomplish this task
- ❖ As a result, they have to depend upon foreign capital to undertake the exploitation of the resources

5. To Develop Basic Economic Infrastructure

- ❖ The economic infrastructure includes the system of transport and communications generation and distribution of electricity, development of irrigation facilities etc
- ❖ The domestic capital of the underdeveloped countries is often too inadequate to build up the economic infrastructure of country on its own
- ❖ Thus they require the assistance of foreign capital to undertake this task

6. To Improve the Balance of Payments Position

- ❖ In the initial phase of the economic development, the underdeveloped countries need much larger imports in the form of machinery, capital goods, raw materials, spares and components etc., as compared to their exports
- ❖ As a result, the balance of payments generally turns adverse
- ❖ This creates a gap between the earnings and expenditure of foreign exchange
- ❖ Foreign capital presents a short term solution to the problem

Conclusion

- ❖ This shows that the economic development of an under-developed country should obviously receive a boost as a result of foreign capital

Thank You