**Dr. Surendra Kumar**

**Foreign Capital & Economic Development**

Poor countries are capital-deficient. Their rate of capital formation is low. Rate of savings is also low. As such, to meet developmental requirement, these countries have to rely on foreign capital to some extent.  
Foreign capital may be obtained through

(i) foreign aid

(ii) private foreign investment

(iii) public foreign investment.  
Foreign aid depends on the generosity of developed nations in giving grants to less developed economies. Its availability depends on political international relations. An excessive reliance on foreign aid endangers a country’s sovereignty.

Private foreign investment leads to an inflow of capital. It brings technical know-how and entrepreneurial talents. But the availability of foreign capital from private investment depends on the government’s policy in the country. If there is a threat of nationalisation, private foreign investment will be discouraged.

There may be public foreign investment when two countries take up a joint economic venture.

External finance can help acceleration of growth process but if you depend on it too much, it can keep the country away from self-reliance. Thus, foreign aid should

be resorted to begin with. But when the development process has reached to take-off stage, the country should rely on foreign trade rather than foreign aid.

Trade is economic, while aid is always political. “Much of what goes by the name of foreign aid today is in the nature of bribes…These bribes are justified primarily in terms of foreign aid for economic development.”

But, “the purposes of aid for economic development are likely to suffer when they are disguised as military assistance.” Hence, true development ultimately depends on trade, by increasing exports to import real capital in turn, and not on superficial aids.

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ROLE of FOREIGN CAPITAL
In the early stages of industrialization in any country foreign capital plays an important role....