

Nalanda Open University

Department of Economics

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- Course – BA Economics (Part –III)
- Paper – VI (International Economics)
- Topic – Role of Foreign Capital in Developing Countries

Introduction of Foreign capital

- “It is not possible to buy development so cheaply. The provision of foreign capital may yield a more adequate infrastructure but rarely by itself generates rapid development unless there are already large investment opportunities going a-begging” by A. K. Carincross
- Foreign capital is also termed as Foreign Aid

Forms of Foreign Capital

- Foreign Direct Investment (FDIs)
- Foreign Institutional Investments (FIIs)
- Portfolio Investments
- Foreign Collaboration
- Inter-Government Loans
- Loans from International Institutions
- External Commercial Borrowings

Impact of Foreign Capital in India's Economic Development

- It helps to raise level of investment in the country.
- It stabilize raw material supply in the economy.
- It stabilize prices of fast moving consumer goods in the economy.
- It helps in enlargement of power potential in the economy.
- It supports irrigation facilities in the economy.
- Foreign Aid improves transport facilities.
- Foreign supports strengthening heavy industries in the economy.
- It enlarges technical support in the economy.

Problems of Foreign Capital in India

- Political Pressure in foreign collaboration.
- Net inflow of External Assistance is in loss to India.
- Uncertainty and high risk associated with it.
- Poor capacity to absorb foreign capital.
- Burden of debts to repay by India.