

# Foreign Capital and Economic Growth



*Foreign Aid, Part B*

# Role of Foreign Aid in Economic Development

- ❖ According to many Economists foreign Aid can play a useful role in breaking the vicious circle of poverty that operates in an underdeveloped country
- ❖ The high rate of economic growth requires high rate of investment
- ❖ But being poor their own savings are too low to permit them to break the vicious circle

# Role of Foreign Aid in Economic Development

- ❖ The foreign assistance can play a critical role by supplementing the domestic savings and thereby ensure the desired rate of investment
- ❖ Thus without foreign Aid the growth rate of will be lower and the economy may remain caught up in the vicious circle of poverty

# Role of Foreign Aid in Economic Development

- ❖ Developing countries face another problem for speeding up the rate of economic growth
- ❖ This is the problem of foreign exchange gap or what is also called balance of payments constraint

# Role of Foreign Aid in Economic Development

- ❖ To accelerate economic growth, especially industrialisation, the developing countries need to import raw materials , machinery and other capital goods on a large scale from the developed countries
- ❖ The importance of foreign aid also lies in the fact that along with it technical know how, that is, high level technical personnel are also obtained which are in scarce

To be Continued...

Thank You