Chapter-II

Rationale of Foreign Capital in the Development of Economic Infra Structure
The capital formation has long been recognised as one of the major factors responsible for economic development. The capital needed for economic development can either be formed within the country itself or it can be brought in from outside. A developing country like India with all characteristics of under-development and low standard of living, has not been able to accumulate capital in sufficient quantity to meet out the expenditure of major developmental projects. As a result she has to depend on foreign capital which is indispensable to its economic development especially when it is closely associated with advanced technology and managerial skills. This chapter makes an attempt to analyse the role of foreign capital and foreign collaboration in the development of economic infrastructure in India and their socio-economic implication. The purpose is to show the extent of foreign capital needed for accelerating the pace of economic development in India. It also examines the rationale of foreign investment and the pros and cons of inviting private foreign capital for economic development.
The contribution of foreign capital to the promotion and advancement of world economic growth has long been recognised as of vital significance. This not only facilitates the development of world's natural resources but also becomes instrumental in transmitting of direct effects of the industrial revolution from one region or country to another. It is believed that external assistance is essential for developmental planning as it supplants domestic efforts and thus enables domestic capital formation exceed domestic savings, thus making up the leeway in the aid-receiving country's factor proportions, especially in her capital input and technical know how. The apologists of external aid further argue that foreign aid is a historical necessity and all the advanced countries of today like the U.S.A. The U.K., Japan and Canada needed foreign capital sometime or the other at some stage of their economic development. Speaking of the importance of foreign capital in the economic development "Chester Bowley" says, "It is useful to remember that every prosperous nation has relied in large measures on foreign capital and foreign technicians for its own development."

2. Ibid. p. 178.
4. Ibid, p. 77
Nearly every development country has had the assistance of foreign finance and technology to supplement its own meager savings in the early stages of its development. In the last century foreign capital played a crucial role in the take of stages of development in the economics of the U.S.A., the U.S.S.R., Sweden, Canada and Australia. The economics of the U.S.A., Australia and Canada would never have attained their astounding progress without the influx of huge amounts of capital from the United Kingdom, which also provided massive aid to European countries and Japan under the Marshall plan for reconstructing their economics devastated by World War II. Chester Bowley, while narrating the importance of foreign capital in the development of United States economy says, America's railways in large measure were financed by British capital. The French helped us to build our chemical industries. Thousands of foreign born engineers, scientists and technicians helped lay the basic for America's Sweeping modern new industries.

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England developed its economy on the loot of the huge resources of its colonies and its vast empire besides taking help from Holland etc. The Canadian case represented one of the highest degrees of dependence on external capital. Canada with sparse immigrant population and abundant resources, which went through successive waves of discovery of natural resources and new ways of utilising them absorbed a large amount of foreign capital and reached a significant level of economic development. She has often been considered as an ideal case of economic development by means of foreign capital, not only in terms of the amount and diversity of forms in which she attracted foreign capital, but also, in terms of effects on stimulus to domestic enterprise and of maintaining a high record of debt service and repayment. Japan starting in the last quarter of the 19th century revealing some of the socio-economic characteristics of present day underdeveloped economies absorbed external finance during the whole period of its industrialisation. So far as the Russian case is concerned, she inherited an

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industrial base built during the period 1981-1913 with the import of foreign capital particularly from France. 10

In our country also the importance of foreign capital was recognised even before the era of planning, was ushered in, not only because of the need to supplement the domestic capital but also because technical and managerial know-how are best secured along with foreign finance. 11 Since Independence, India has embarked on planned economic development. The rapid economic growth of a nation depends, on no other factors, on its rate of savings and capital formation, the technological advancement attained in the country and the availability of external capital. When domestic savings are not adequate, it becomes necessary to supplement the same by resorting to foreign capital in order to generate the force of economic growth and to finance a higher rate of investment. Moreover, no nation can afford to be completely self-sufficient, in the context of modern industrial economy, otherwise it will be denying itself the benefits that an international industrial economy can render and will long behind in the race of progress.


The need for foreign capital in a developing country like India arose on account of many reasons. India suffers from inadequate savings and lack of capital supply, a relative shortage of capital goods, technical know how and technical equipments. To overcome these deficiencies India has to arrange for external finance. The reason for low rate of capital formation in India is that vast majority of people are too poor and have very little and even those who have limited amount to save do not place their savings at the disposal of capital market. Besides as has been pointed out by the planning commission, "The Proportion of national income that is saved and made available for investment depends upon psychological and institutional factors and habits, the distribution of income and the rate at which the income of different classes goes up and the efficiency of banking and other institutions for mobilising savings. All these play a part in determining the rates of savings at all. It also depends upon government taxation fiscal and monetary policy and on the availability of machinery and equipment, technical knowledge, all of which have been inescapable to aid capital formation. The situation calls for increasing use of foreign capital."
India is blessed with rich natural resources, minerals, and hydro-electric power which urgently needs to be developed in order to raise the standard of the masses, but except some enterprising efforts local capital is not available in plenty, hence if foreign capital can be attracted it would enable India to tap these resources. In a scheme of building a solid infrastructure, electrification of roads, railways, canal construction, irrigation, scientific cultivation, storage and transport all these require enormous capital investment. Our own capital is not fully forthcoming and not developed. Here too foreign capital is required to overcome the shortage of local capital.

The Indian Fiscal Commission pointed out the additional advantage that will accrue to the country from the employment of foreign capital. It said, "Apart from the intrinsic benefits of increased supply of capital, the foreigner who brings his capital to India supplies India with many things of which she stands urgently in need. In the whole the foreign capitalist who imports in the country the technical knowledge and organisation and enables us to purchase capital goods and equip us which are needed to give
an impetus to industrial development.

The role of foreign assistance is not because it can supplement domestic saving by bridging the gap between essential imports requirements and export possibilities out of technical know-how scientific methods and industrial knowledge that are complementary to such capital flow have tremendous growth potential in a developing country. 12

Rationale of Foreign Capital:-

It is well known that even after 35 years of Independence and over the decades of planning economic development, India remains predominantly a rural society with a vast number of people living in wretched conditions of grinding poverty. Mass unemployment, mass illiteracy, use of primitive technology, low returns on investments across interregional and intra-regional inequalities of income and wealth remain in initial stages of pressures still continue. 13 The rationale of foreign capital and


Foreign collaboration is inherent in the existing financial and technological gaps of India and the ways in which it could contribute to the fulfilment of her planned economic development. The need of foreign capital in the present era is intimately linked to development planning, and India like most of the present day developing countries view her need for foreign capital and collaboration from the standpoint of her development plans, even the advanced countries have encouraged the practice of development planning as a pre-requisite for the receipt of foreign investment. Given the technological and financial gaps on one hand and the underdeveloped state of the economic infrastructure on the other, it was expedient for India to invite foreign capital and technology so as to achieve the rapid economic growth. Since, the size of investment finance these projects requires funds larger than can be financed from the resources internally available, external financing in the form of official loans and direct foreign private investment in the related industries was found essential.  

14. Government of India, Planning Commission The First five year plan New Delhi, Vo' 1 chapter 1, p. 38.
India as other underdeveloped countries, is also influencing the economy, and position in the use of foreign resources through a variety of policy measures.

Since the underdeveloped countries want to industrialize themselves within a short period of time, it becomes necessary to increase the level of investment substantially. However, because of several of reasons, the savings are very low. Hence foreign resources are between investment and savings.

Thus the importation of foreign capital strengthens financial resources and helps to overcome the deficiency of domestic savings. Prof. Lewis rightly points out that, "The case for foreign investment is that it "provides foreign exchange" and increases domestic saving." Hence the underdeveloped countries are not able to industrialize countries have a very low level of technology however they possess a strong urge to raise industrialisation to develop their economies and to win out of the low level of technological trap in which they are caught. This raises the necessity for importing technology from the developed countries. Foreign capital apart from the developed countries brings new techniques.

technical knowledge, skilled persons and innovation in products. The advantages like the inflow of technical know-how and managerial skill along with private foreign capital are particularly emphasised. In the opinion of Prof. Rangnar Murko this type of investment has some special advantages. "Bring subject to private motives, and business calculations it is likely to be productively employed. It helps to promote the spread of modern technology and efficient management methods. It is free from the rigid interest and amortisation requirements that effect international loans. Keepin' in view the significance of advanced technology the government has specified fresh conditions for technology imports with a view to accelerating absorption and adoption of the imported know-how. These conditions will replace those in which technology payments are more in a Rs.2 crores during the period the of foreign collaboration. The entrepreneurs will be obliged to invite research and development personnel either from within the in. Persons of from a reputed national laboratory in negotiations for foreign collaborations. The Indian entrepreneur will also

16. Murko, Rangnar; Problems of capital formation in underdeveloped countries, Oxford, 1953, p. 82
have to submit a time bound programme for technology absorption, adaptation and improvement within six months of the issue of foreign collaboration approval. It will also be compulsory for the technology units registered with the department of scientific and industrial research to set up in house research and development facilities or to enter into long term consultancy agreement with any relevant research and development institution in the country within two years of the receiving the foreign collaboration approval letter. Further an outlay of Rs. 2,466 crores is provided for science and technology in the seventh five year plan of this Rs. 2,303.43 crores is in the central sector and Rs. 162.51 crore in state and union territories. The plan lays special emphasis on the crucial role of science and technology as an instrument of social and economic change.

An important element in the approach is to make science and technology an essential and integral part of all major socio-economic sector to develop capabilities essential for fulfilment of science and technology tasks.

* Fresh Terms for Technology Imports; The Times of India, New Delhi, Friday, August 29, 1986 Page 1.

in these areas, and to undertake science missions that are well defined. It would also necessitate establishing linkages among different sections of education, scientific research, technology development, productive activities in agriculture, industry, etc., and Government decision-making structures. The plans for the application of science and technology for rural development are designed to be more closely with these plans. There are major new areas in science and technology like micro-electronics information and tele-matics, oceanography, etc. These are to be required as thrust areas and accordingly will receive significant support. The new thrusts suggest that the best talents be attracted to science and technology and priority for this be given to a substantial improvement in the general science and technological facilities in universities and research institutions. Measures are intended to be taken to ensure implementation of the recommendations enunciated during the sixth plan.

The inflow of foreign capital provides employment facilities to a larger labour force in the country, which is facing the problem of chronic unemployment and under employment, especially in the rural sector. It has been observed that the economic capital of the under-
developed countries is often too inadecuate to build up the economic infrastructure of the country on its own. Thus they require the assistance of foreign capital to undertake this task. In the latter half of the twentieth century, and really during the last twothree decades, international financial agencies and many government of a vanced and developed countries have made substantial capital available to the underdeveloped countries to develop their system of transport and communication, generation and distribution, of electricity, development of irrigation facilities etc. Thus in a well developed economic infrastructure is created rapid industrialisation is bound to take place which will ultimately increase employment opportunities in a country where the main cause of unemployment is the idleness of resources caused by paucity of funds and of enterprises in domestic population.19

In the initial stages of economic development, the underdeveloped countries need much larger imports in the form of machinery, capital goods, industrial raw material, spare and components then they can possibly export. As a result the balance of payment position

the capital's economic development. Indicating a balance in the country, this has the same type of problem in terms of capital, which can avoid "invaluable" of economic difficulties. 20

Considering the crucial role of economic infrastructure like the regional "model," economic centers must be utilized and in vivo returns on economic activities, it has been visualized that so on the part of foreign investors also a drain to the country. Under such conditions, it is necessary for policymakers to adjust like realities. Economic centers are also to be a 'sentiment' for the country. Hence, economic centers like the capital are also the most effective for the country. 20

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GOVERNMENT POLICY TOWARDS FOREIGN INVESTMENT:

Recognising the crucial role that foreign capital can play in supplementing domestic savings, the government has adopted liberal policy for securing capital goods and technical know-how. However, while adopting a liberal policy towards foreign capital certain safeguards were provided right from the beginning to ensure that this is not used against national interest. India, where the inflow of foreign capital and technology has been sizeable has also been pursuing a "Selective Policy" for controlling the entry and operations of foreign capital and technology, through various administrative instrument forged within the framework of the industrial policy. The Indian policy on foreign collaboration was originally set-out in industrial policy resolution of 1948 and the Prime Minister's Statement in the constituent Assembly in 1949. The Policy on foreign capital was modified from time along with the changes introduced in its industrial policy.

In a historical sense, the industrial policy statements and Resolutions have been providing the framework of approach for foreign collaboration in India. The Statement of Industrial policy (1977) provided an opportunity for the new government to look afresh at the foreign collaboration in the light of past experience and to enunciate a rational approach.
The first Prime Minister of independent India Pandit Jawaharlal Nehru in a speech in Parliament articulated India's approach to foreign aid. He stated on April 6, 1949 "... the need to regulate, in the national interest, the scale and manner of foreign capital arose from past association of foreign capital and control with foreign domination of the economy of the country, but under the changed circumstances the new emphasis should be on the utilization of foreign capital in a manner most advantageous to the country."

Nehru's pronouncement on foreign capital were further concretized into a policy framework which stated:-

(a) Foreign capital would be invested in India on mutually advantageous terms and conditions.

(b) Facilities of remittance of profit would be extended to foreign capital investors.

(c) Any acquisition of foreign enterprise would be on the basis of fair and equitable compensation.

(d) Discriminatory conditions would not be imposed on foreign investors and

(c) Indianization of personal and control would be encouraged but for a limited period, in the national interest, foreign capital would be permitted to control an enterprise.22

The fiscal commission (1949-50) recognised the need for the foreign capital but limited the fields for investment to projects in public sector which depend upon the import of capital goods. The commission strongly emphasised that it should be the duty of the state policy, to create and maintain conditions favourable to the inflow of foreign capital as desired to come to India.23

The Planning Commission (1951) observed in connection with foreign capital that, "it has important part to play. The first Five Year Plan (1951-56) observes that 'in view of the fact that the investment of foreign capital necessitates the utilization of indigenous resources and also that the best use of foreign capital is as catalytic agent for drawing for the larger resources for domestic investment. It is desirable that such investment should be channelled into fields of high priority.'24 The control of foreign investors both public and private increased during the second five year plan with the emergence of a crisis of capitalist development in India. The

22. Ibid - p. 26
23. Ibid - p. 30
24. Draft First Five Year Plan, G.O.I., New Delhi
Government of India reaffirmed India's desire and willingness to accept foreign aid for development. Every successive five year plan opened the country to the flow of multilateral and bilateral public and private aid and investment.25

A committee of the Government of India, appointed on the 19th February 1966 under the Chairmanship of A. Rama Swami Murlidhar, clearly stated that India was dependent for technology on foreign countries. The committee observed:

"We are not as yet generating or investing even a small fraction of the resources required to keep pace with the research and development which is taking place in the more industrialized countries. If we adopt a restrictive approach to foreign technology without at the same time ensuring that indigenous technology is able adequately to serve the industrial development of the country, economic growth would be hampered.26

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The Janata Party which came into power in March 1877 in its industrial policy Resolution had accorded a role to foreign collaboration which was described as pragmatic and developmental. In March 1979 the Janata Party constituted a committee of M.P's under the Chairmanship of Mr. S.S. Chundari to review foreign collaboration in India. The then Prime Minister Mr. Morarji Desai while speaking to the Committee stated,

"Our aim is to foster technical and financial collaboration must be selective and flexible in consonance with our emphasis on self-reliance." 27

Foreign capital is not permitted in the fields of banking, commerce, finance, nation, trading, and consumer industries. Foreign investment is permitted in high technology and export-oriented areas. The normal limit of foreign participation is 40 per cent which is relaxed on merit in individual cases. Certain liberalised facilities for investment in India have however been made available to investors from oil exporting developing countries and non-resident Indians. 28

27. Quoted by Jhanthri in his book World Bank and India, op.cit., p. 35.

In recent years, a policy of liberalisation has been adopted by the government in encouraging more and more foreign investment. Various concessions and incentives have been announced by the government in its budgetary proposal in order to attract non-resident Indian investment in the country.

As a consequence of its policy of liberalisation India has been receiving a large amount of foreign assistance from many friendly countries and various international financial agencies like the International Monetary Fund (IMF), The World Bank (IBRD) the International Development Association (IDA), The International Financial Corporation (IFC) and The Asian Development Bank (ADB) etc. External assistance to India has been in various forms such as loans repayable in local currency, credit repayable in convertible currency, short term credits, long and medium term credits, grants, technical and scientific aid, commodity assistance under the scheme of Pl. 480/655 etc. The terms and conditions of aid to India have differed from donor and from to time. These aids were utilised mainly for the development activities in the sphere of agricultural, irrigation, command area development, rural and drinking water supply, population control, nutrition programme, power supply, railways, oil and gas, fertilizers, imports of spare parts and telecommunication etc.
As is evident from tables 2.1 and 2.2 that at the end of March 1984 the total external aid authorisations amounted to Rs. 36,474.4 crore which consists of loans Rs. 29,494 crore, grants Rs. 4,206.7 crore and commodity assistance Rs. 2,774 crore. Against the said authorisations the total assistance utilised amounted to Rs. 29,084 crore consisting of loans Rs. 22,701 crore, grants Rs. 3,504 crore and commodity assistance Rs. 2,819 crore.

In 1983-84, the total gross inflow of foreign assistance was Rs. 2,267 crore and the net inflow after deduction of Rs. 615 crore towards repayment of Principal amounting to Rs. 1,652 crore. Against Rs. 2,267 crore during 1983-84 the gross inflow of external aid is placed at Rs. 2,631 crore (Rs. 2,327 crore + grants Rs. 304 crore) in 1984-85. The repayment during 1984-85 is estimated to be Rs. 652 crore as against Rs. 615 crore in 1983-84. The total inflow of net flow of foreign aid was estimated to be around Rs. 2,009 crore during 1984-85 on budget estimate. India welcome foreign investment. For growth in post independence period, political stability and opportunity of profits to the foreign investor and also the facilities of availability of foreign exchange to him to remitiate capital and profits and the assurance of fair compensation in the event of nationalisation should create confidence in him which provides and appropriate climate for foreign capital.
Table No. 2.1

OVERALL EXTERNAL ASSISTANCE

<table>
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<tr>
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<th>Loans</th>
<th>Grants</th>
<th>Total</th>
<th>PL 480 assistance Total</th>
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<td><strong>AUTHORISATIONS</strong></td>
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<tr>
<td>Upto the end of Third Plan</td>
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<td>392.0</td>
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<td>Upto 1969-70</td>
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<td>190.9</td>
<td>2798.4</td>
<td>1008.0</td>
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<tr>
<td>Upto 1974-75</td>
<td>4730.4</td>
<td>360.4</td>
<td>5090.4</td>
<td>118.7</td>
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<tr>
<td>1975-76</td>
<td>2192.8</td>
<td>440.0</td>
<td>2633.5</td>
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<tr>
<td>1976-77</td>
<td>906.7</td>
<td>386.1</td>
<td>1292.8</td>
<td>93.6</td>
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<td>1977-78</td>
<td>1536.6</td>
<td>337.6</td>
<td>1874.2</td>
<td>22.8</td>
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<td>1978-79</td>
<td>1804.6</td>
<td>141.1</td>
<td>2335.7</td>
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<td>1979-80</td>
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<td>1983-84</td>
<td>1792.2</td>
<td>366.7</td>
<td>2159.1</td>
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<td>4206.1</td>
<td>33700.5</td>
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In utilisation figures are inclusive of suppliers' credits up to 1977-78 which may not be fully reflected in authorisation figures. Subsequent data are exclusive of suppliers' credits.

## Table No.2.2

**OVERALL EXTERNAL ASSISTANCE**

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<tr>
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<th>Grand Total</th>
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<tr>
<td>Upto 1969-70</td>
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<td>3057.5</td>
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<td>Upto 1974-75</td>
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<td>220.6</td>
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<tr>
<td>1980-81</td>
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<td>396.4</td>
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<td>339.4</td>
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<td>1962.2</td>
<td>303.4</td>
<td>2265.6</td>
<td>-</td>
<td>2265.6</td>
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Total = 22700.8  3563.9  26254.7  2312.2  29083.5

In utilisation figures are inclusive of suppliers' upto 1977-78 which may not be fully reflected in authorisation figures. Subsequent data are exclusive of suppliers credits.

Table No. 2.3 shows that inflow of external assistance gross and net for the period 1980-81 to 1986-87 it is clear from the table that Gross disbursement of external assistance increased from Rs. 2354 crores in 1984-85 to Rs. 2938 crores in 1985-86. It is estimated that during 1986-87 there may be a further increase in such inflows to Rs. 3841 crores. Net assistance (net of debt servicing) received by India also showed an increase from Rs. 1178 crores in 1984-1985 to Rs. 1571 crores in 1985-86. Net assistance is estimated to increase by about 43 percent to Rs. 2241 crores in 1986-87.
### Table NO. 2.3

**INFLOW OF EXTERNAL ASSISTANCE - GROSS AND NET**

(Rs. crores)

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<td>1. Authorisation</td>
<td>3847 @</td>
<td>2840</td>
<td>2949</td>
<td>2079</td>
<td>4692</td>
<td>5399</td>
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<td>2. Gross disbursements of which Debt relief</td>
<td>2162 @</td>
<td>1870</td>
<td>2250</td>
<td>2268</td>
<td>2354</td>
<td>2938</td>
<td>3841</td>
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<tr>
<td>3. Debt Servicing (including interest payments)</td>
<td>804</td>
<td>849</td>
<td>948</td>
<td>1033</td>
<td>1176</td>
<td>1367</td>
<td>1600</td>
</tr>
<tr>
<td>4. Net inflow of assistance</td>
<td>1358 @</td>
<td>1021</td>
<td>1302</td>
<td>1235</td>
<td>1178</td>
<td>1571</td>
<td>2241</td>
</tr>
</tbody>
</table>

@ includes drawings under IMF trust fund.
* Authorisation on Government account only from April-Sept. 1986
** Estimated.

**NOTE:** The data include Government and non-government loans and grants (including food assistance grant but excluding other commodity grant assistance). They do not include supplies credits and commercial borrowings.

IMPACT:

The role played by foreign capital and foreign investment in the growth and development of Indian economy is well established and hardly needs any emphasis. During the British rule foreign capital played dominant role in the development of mining, plantation industries, railways, canals, shipping etc., but foreign capital was never invested for economic reconstruction of the country. The result was that Indian economy suffered from a lopsided industrial development which seriously hampered the process of economic development. However private foreign capital had played a significant role in the industrial development of our country.

At the time of independence most of the Indian companies were consumers-oriented and there were hardly any capital goods or intermediate goods industries. As present the Indian industrial structure presents totally a different picture. There have been a tremendous growth in the industrial sector. Refining, chemicals, petroleum and pharmaceuticals, light and heavy and several other industries have been established and are working on a profitable basis with the help of foreign collaboration. These industries would have not come into existence or would have taken many years to growth and expand without foreign capital, technical knowhow and skills brought in from abroad.
Private investment largely from Britain provided the founding capital on which the industrial wealth of India was built. Foreign private investment was immensely useful and had helped to step up industrial growth at a faster pace. Industrial concerns would find it helpful to secure foreign collaboration in as much as foreign participation will ease the problem of finding immediately needed foreign exchange and the know-how will be available on permanent basis. More over foreign investors participating in joint ventures would take an interest in running them efficiently because the foreign collaborator is anxious to introduce into the industry in which he holds capital investment the latest technical processes evolved abroad. The dividend and profits earned in regard to such collaborations have no doubt, to be remitted abroad but there is tendency to reinvest also. 29 In addition India has the advantage of having the vital industrial involving complex technological processes. Foreign private investments also avoids the political embarrassments of repayment of capital. 30

29. Sharam, K.K. and Bararia, A.K., Significance of foreign private investment in development plans in India, Foreign investment in our economic plan edited by sharam, K.K. New Delhi, 1982. p.61
As compared to government aid, private investment is less burdensome as far as repatriation is concerned. 31

In today's world no country can hope to be self-reliant in its economic development unless it produces machines and instruments for its industry, transport and agriculture. The position in the early fifties was, as S.K. Shirokov has said, that "in the most important field of all in supply of complete sets of equipment the country was dependent on imports." 32 Further at the time of independence India was much backward in respect of science & technology. According to M. Sebastian, "One of the most vital problems which faced India immediately after it attained independence and which called for an urgent solution was eliminating the acute shortage of technical manpower since it is only an army of scientists, engineers, agronomists, technicians and skilled workers that would enable a country to build and developed a truly independent national economy." 33

31. Ibid. p. 63.
33. Ibid. p. 48.
Thus after independence the government of India has diversified and multiplied its source of public and private foreign investment to attain rapid economic progress. Foreign capital has played an important role in structural transformation and distortion of the Indian Economy.

The use of foreign capital is not without defects and drawbacks. Various difficulties and constraints arise as a result of foreign capital. For example, foreign capital limited spheres only and chooses only those industries where it can make larger profits, irrespective of the fact whether the development of those industries is in the national interest and development. Excessive dependence and reliance on foreign technical know-how and skills may have a bad effect on local initiative. In many cases, foreign collaboration agreements contain restriction clauses in respect of such things as exports, etc., which is not beneficial to the country. A serious and harmful consequence of the excessive dependence of the country on foreign capital is the interference of these foreign concerns in socio-political matters of a country often these concerns are hostile to the national interest. Thus the significance of external assistance has to be judged in the context of the economic political and objectives, in particular and international relations in general, of the aid receiving country, on the one hand and the aid policies and objectives of aid giving countries.
agencies and countries on the other. External assistance must be in conformity with the sovereignty of the recipient country, so that it does not have to compromise its right to adopt whatever policies it thinks suitable in the larger interest of its people.°

CONCLUSIONS:

The main purpose of external capital to developing nations is to accelerate their economic development to the point of satisfactory rate of growth, to be achieved on self-sustaining basis. For a developing country like India, internal mobilisation of resources for economic development will be hard and hence dependence upon foreign resources will be of great use to her. Conditions are very favourable for international collaboration and external aid. India is encouraging the inflow of foreign assistance from international institutions from other governments and private investors and groups. India has started taking initiatives for inviting foreign capital, foreign equipment and technical skill for meeting out the developmental needs of our growing economy.

The scope and manner of foreign capital arose from past associations of foreign capital and control with foreign domination of the economy of the country, but

under the changed circumstances the new emphasis shall be on "the utilization of foreign capital in a manner most advantageous to the country." Capital requirements of the country need to be supplemented by foreign capital not only because of insufficiency of internal capital for rapid development but also because in many cases scientific knowledge advanced technology and managerial skills can be obtained along with the foreign capital. It is because of these clearcut advantages the Government of India has, of late offered an increasing number of incentives for attracting the private foreign investors to invest their capital in the developmental projects of our country.

Our plans and schemes for foreign collaboration gives special stress for the development of basic infrastructure for rapid socio-economic advancement of the country. The World Bank and its affiliates the International Development Association (IDA) and the International Finance Corporation (IFC) played a pivotal role in the development of basic economic infrastructure. In the next chapter therefore, an attempt has been made to highlight the role of World Bank and its affiliates in the development of economic infrastructure in India with special emphasis in the development of power, transport and irrigation facilities etc.