



YOUR LOGO

INTERNATIONAL CAPITAL FLOWS

Faculty of Economics, Thammasat University

Semester 1 2022

EE463 Globalization and International Development



YOUR LOGO



INTERNATIONAL CAPITAL FLOWS



International capital flows are transactions involving financial assets between international entities

Forms of international capital flows

Foreign aid

assistance from
bilateral or
multilateral sources
to recipient
governments

**Private foreign
investments**

Investments
through
companies/firms
from abroad

Remittances

earnings by
international
migrants or foreign
workers to their
home country

Military aid

government-to
government
arrangements for
defense and military
purposes

Foreign aid (Official Development Assistance)

- Financial flow, technical assistance and commodities given by bilateral or multilateral sources to a country for development purposes



Private foreign investment

- Private foreign investments comprise foreign direct investment and foreign portfolio investments
- Bottom line: profits
- Mainly channeled through the private sector and MNCs



Private foreign investment

Foreign direct investment

- business investments from outside the country



Private portfolio investments

- foreign purchases of stocks, bonds, certificates of deposit, commercial papers



Remittances

- Earnings sent by foreign workers to their home country
- Remittances are the largest forms of international capital flow, exceeding FDI and ODA



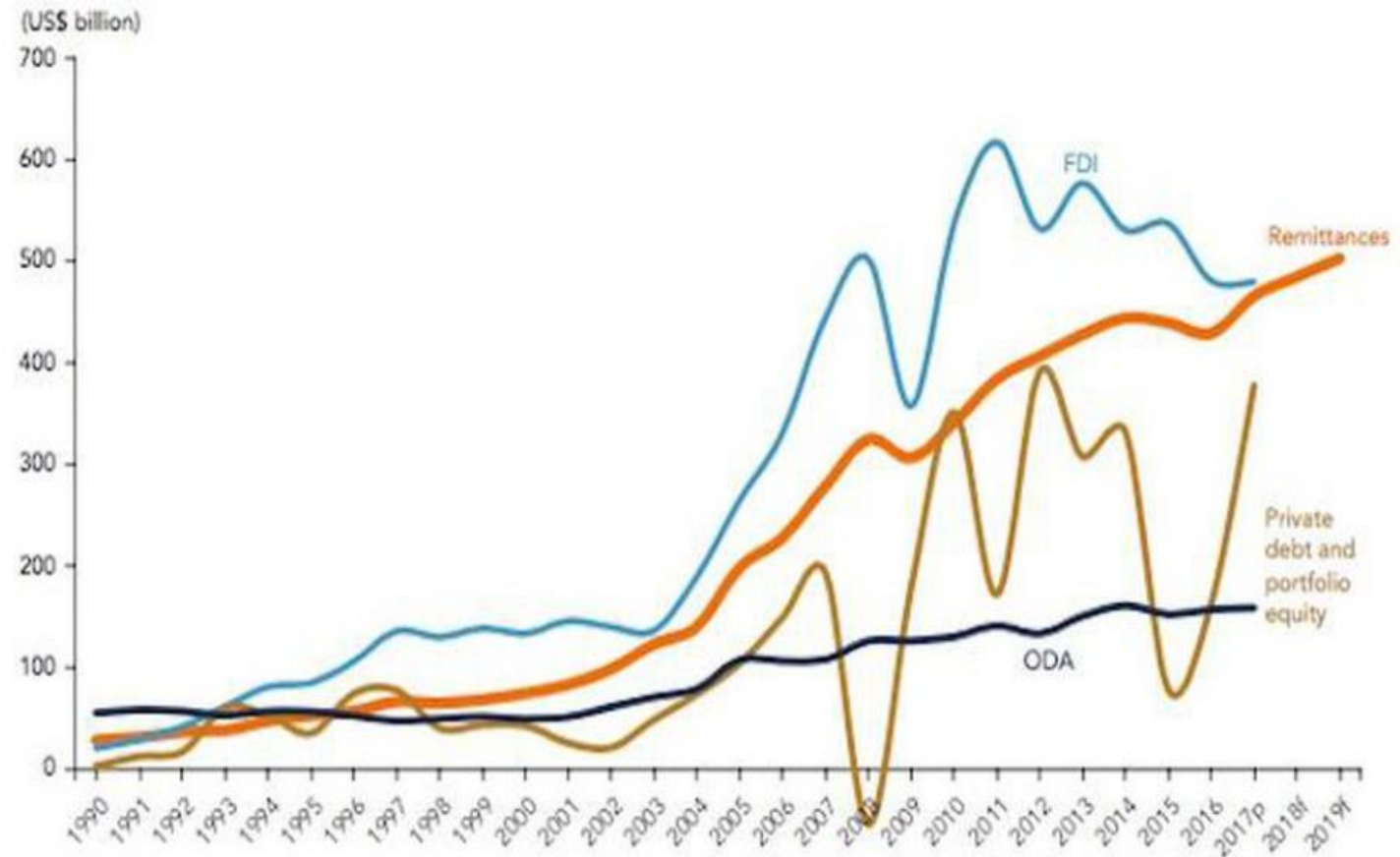
Military aid

- Assistance country provided to a country for defense and security
- Purpose: to assist a country in maintaining territorial control
- Can be used to buy weapons equipment and troops



Trend in international capital flows

- Overall, international capital flow is increasing
- Since 2017, remittances have overtaken ODA and portfolio investment flows as a source of capital resource flows to developing countries



Sources: World Bank staff estimates; World Development Indicators.

Note: FDI = foreign direct investment; ODA = official development assistance. See appendix A in World Bank (2017b) for data and forecast methods.



YOUR LOGO



FOREIGN AID

Design Option #6

What is foreign aid?

- Foreign aid is financial flow, technical assistance and commodities given by residents of one country to another country for development purposes
- Foreign aid is also known as official development assistance (ODA)

Modalities and sources of foreign aid

- Modalities: loans, grants and technical assistance
- Sourced through multilateral or bilateral organizations



What is foreign aid?

- Not all financial flows and technical assistance can be considered as foreign aid
- Depends on who gives it, for what purpose, and the terms and conditions
- Commercial foreign lending, technical assistance for military purposes, and grants from religious groups are not foreign aid



Purpose of foreign aid

- Stimulates economic growth through building infrastructure
- Supports productive sectors, introduce new ideas or technologies
- Promotes other development objectives, such as strengthening education, health, environment, or political systems



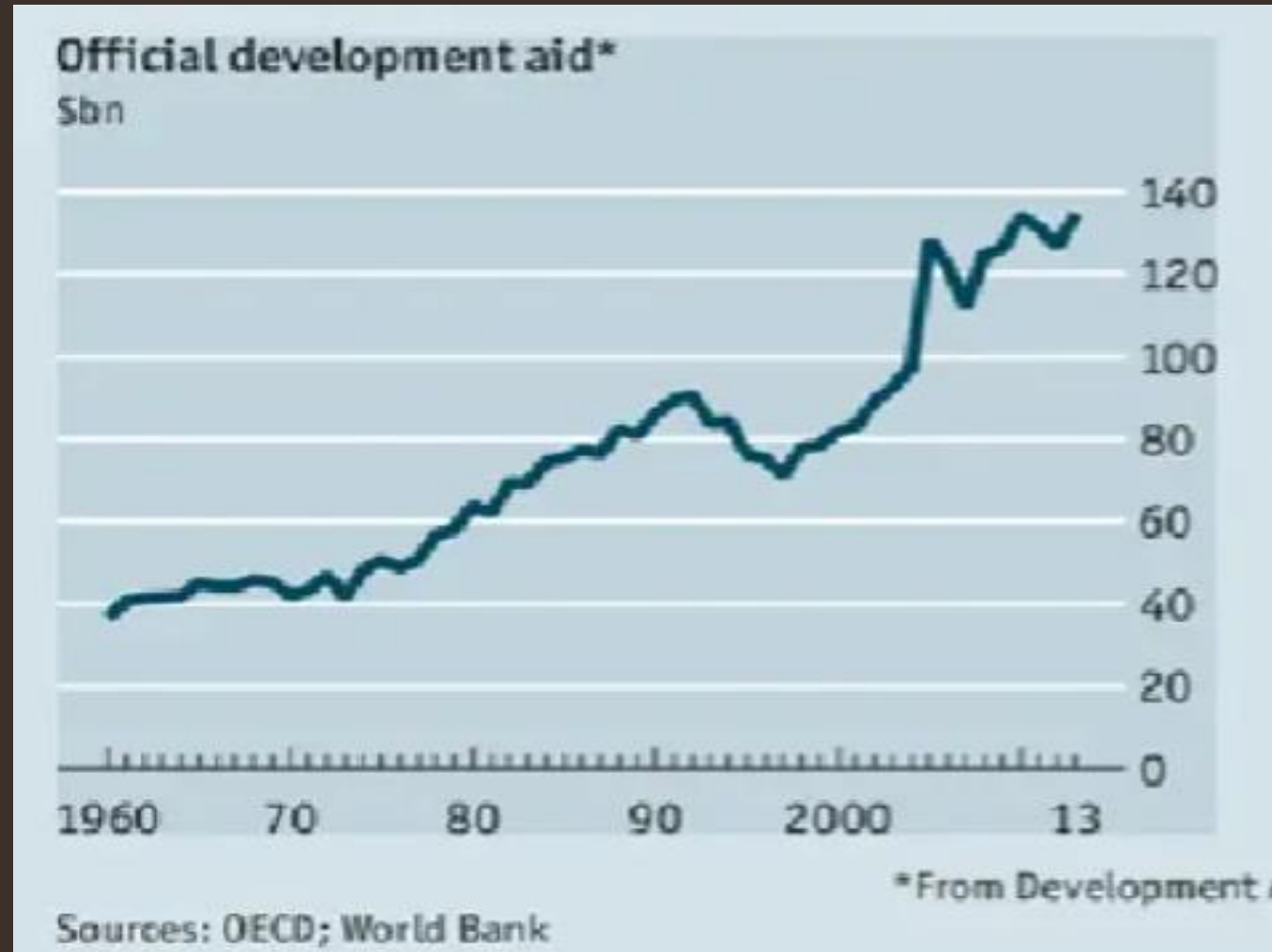
Purpose of foreign aid

- Supports subsistence food consumption and other commodities, especially in emergencies after natural disasters or humanitarian crisis
- Helps stabilize an economy after economic shocks



Trends in foreign aid

- Global aid rose steadily from the 1960s until it reached a peak of \$90 billion in 1991, after the end of the Cold War
- Global aid declined in the 1990s and started to rebound in the early 2000s
- The global financial crisis in 2008 caused a decline in global aid but rebounded the following year



Sources of ODA: Bilateral aid



- **Bilateral aid:** assistance directly from one country to another; government-to-government
- Supports recipient country governments (government-to-government)
- In some cases aid is disbursed through research organizations, universities, and not-for-profit organizations



Semester 1 2022



EE463 Globalization and International Development



Sources of ODA: Multilateral aid

- **Multilateral aid** is assistance from international institutions which have pooled financial sources provided by their member countries
- Multilateral aid provides larger amounts of aid compared to bilateral aid
- Provides lower bureaucratic costs
- Requires fewer political ties



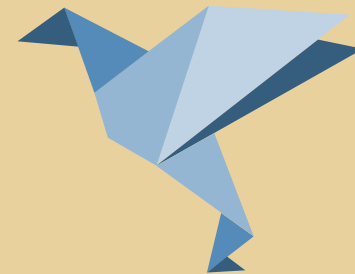
Debate on foreign aid

- Foreign aid enriches elites in recipient countries and therefore does more harm than good
- Reinforces corrupt practices and distorts incentives; example: widespread poverty in Africa and South Asia despite 4 decades of foreign aid
- Accelerates growth, reduces poverty helps achieve development objectives in countries unable to generate resources needed to finance investment; example: Marshall Plan



Aid and economic growth: View 1

Although not always successful, on average aid has a positive impact on economic growth and development



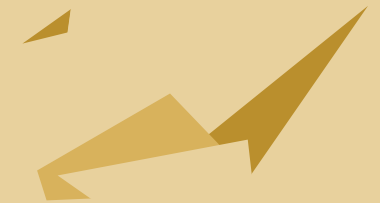
Aid and economic growth: View 1

- Aid promotes growth by financing new investments, especially investments in public goods such as roads, ports, electricity generation and distribution, schools and health facilities
- Aid promotes capital accumulation/ formation as driver for economic growth, and transfer of knowledge/innovation



Aid and economic growth: View 2

Aid has little or no effect on growth,
and could actually undermine growth



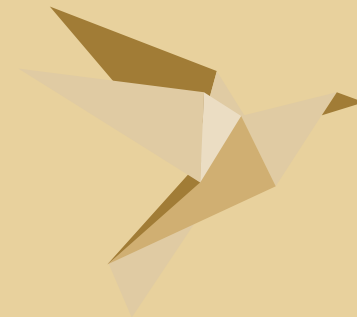
Aid and economic growth: View 2

- Aid is spent on large bureaucracies, expensive consultants and corrupt officials of recipient countries
- Aid is not effective if the absorptive capacity of recipient governments is low; implementers lack skills in managing aid
- Aid may crowd out the domestic private sector



Aid and economic growth: View 3

Aid has a conditional relationship with growth, stimulating growth only under certain circumstances



Aid and economic growth: View 3

- Depends on the characteristics of the recipient country and quality of institutions and policies
- Depends on the type of aid: short term (humanitarian assistance); medium term (infrastructure) or long term (education, health)



Aid and economic growth: View 3

- Depends on donor practices; multilateral aid is deemed more effective than bilateral aid because of less influence of political factors



Conclusion

- International capital flows are transactions involving financial assets between international entities
- There are four types of international capital flows, namely official development assistance, foreign private investments, remittances, and military aid; each has a different purpose
- Overall the trend for international capital flows is increasing
- Capital flows could be beneficial to the recipient country, but it has limitations as well

THANK **Y**OU!