



YOUR LOGO

INTERNATIONAL CAPITAL FLOWS

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EE463 Globalization and International Development



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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

- Foreign aid is financial flow, technical assistance and commodities given by residents of one country to another country for development purposes
- Also known as Official Development Assistance



Private foreign investment

- Private foreign investments comprise foreign direct investment and foreign portfolio investments
- Foreign direct investment is mainly channeled through the private sector and multinational corporations
- Private portfolio investments comprise foreign purchases of stocks, bonds, and certificates of deposit and other commercial paper



Remittances

- Remittances are earnings sent by foreign workers to their home country
- Are important sources of capital for developing countries
- Remittances are the largest forms of international capital flow, exceeding FDI and ODA



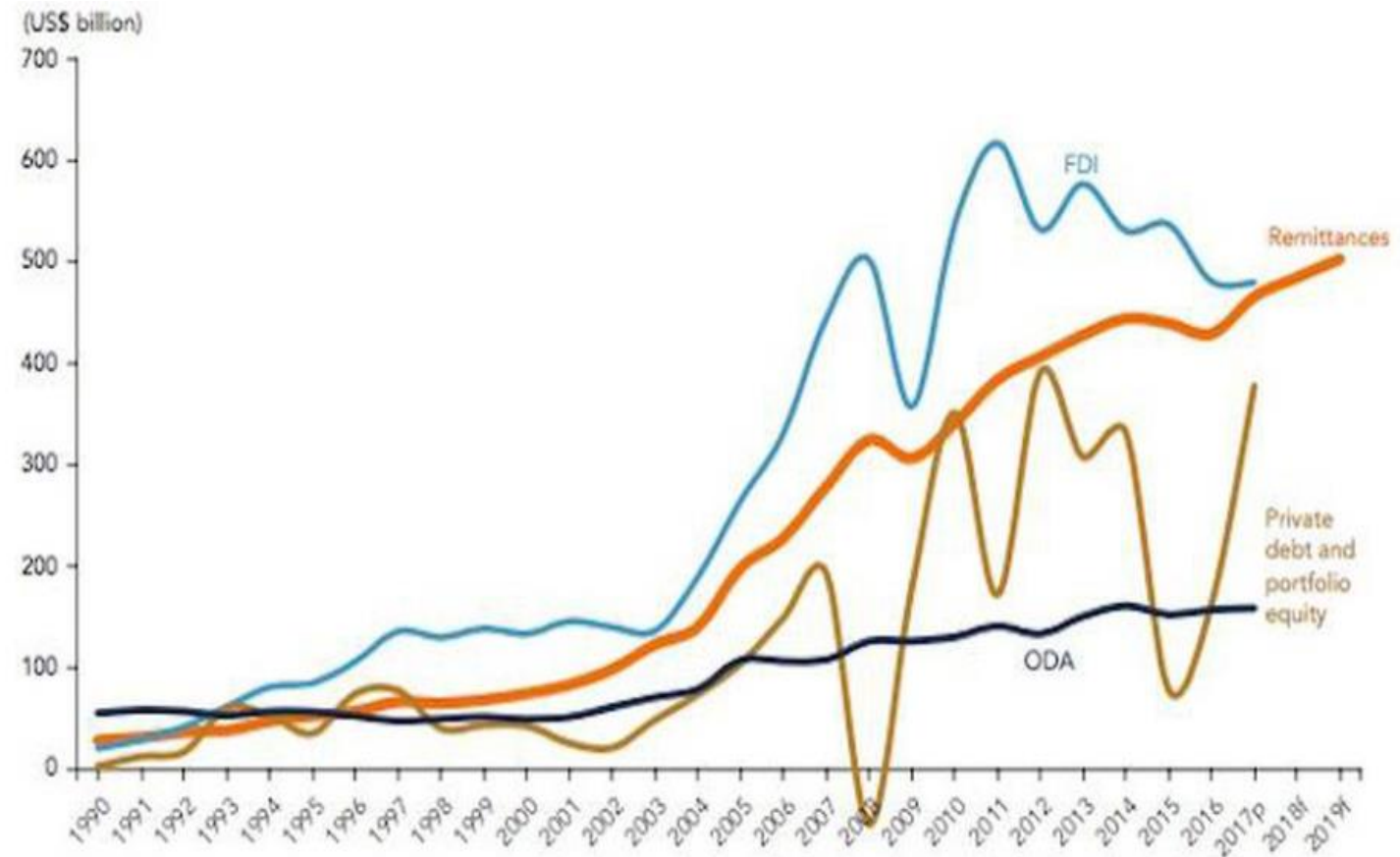
Military aid

- Military aid: to assist a country or its people in its defense; focuses on the need for physical security
- Purpose: to assist another country in maintaining control over its own territory
- Can be in the form of money to buy weapons; equipment from the donor country; 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.



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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



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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



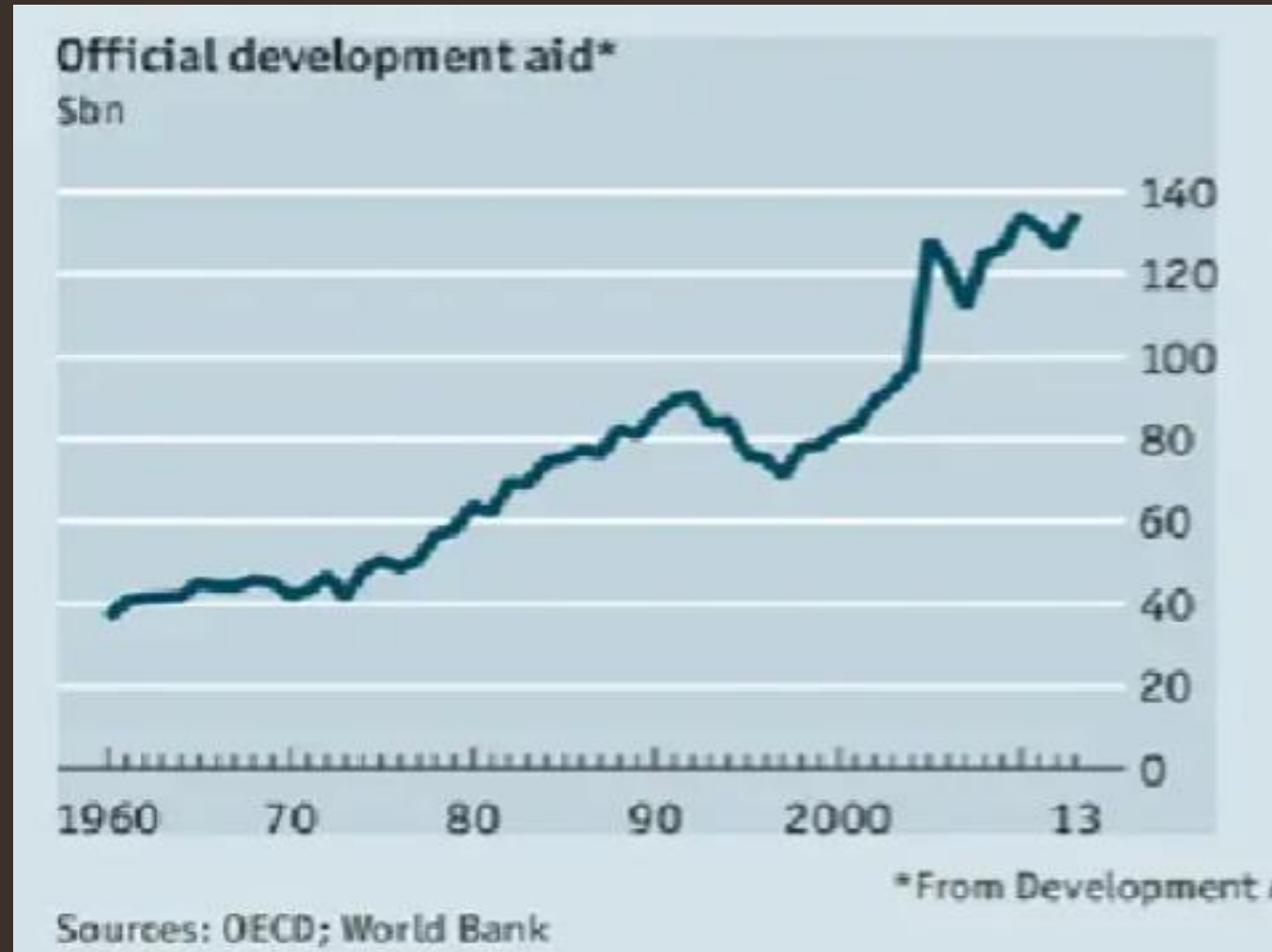
Purpose of foreign aid

- 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



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17

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



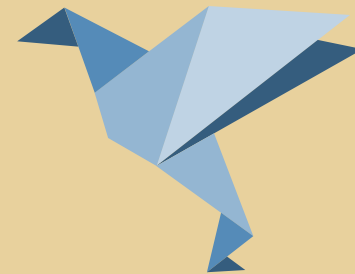
Debate on foreign aid

- 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



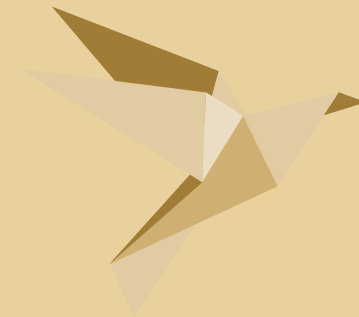
Aid and economic growth: View 2

- 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!