The issue of the effect of foreign capital resources on economic growth of developing countries has continued to occupy a central position in the literature dealing with development problems of our time. However, questions asked by researchers in this respect have changed along with changes in predominant forms of foreign capital resources available to developing countries.

In the 1950s and the early 1960s, the dominant form of foreign capital was foreign aid, mainly through government-to-government transfer of resources. The literature dealing with the relationship between foreign capital and economic growth of developing countries dealt with this particular type (Rosenstein-Rodan, 1961; Chenery and Strout, 1966). In the late 1960s and early 1970s, foreign direct investment (FDI) came into prominence. And the subsequent literature made a distinction between foreign aid and FDI while examining the relationship between foreign capital and economic growth of developing countries (Papanek, 1972; Kraska and Taira, 1974; Stoneman, 1975; Bornschier, Chase-Dunn, Rubinson, 1978; Gobalet and Diamond, 1979; Sharma and Taira, 1982; Rothgeb, 1984).

The dominant form of foreign capital in the 1970s was the foreign private loan (FPL). Also, some of the developing countries which borrowed FPL heavily grew faster than others in the 1970s. Many, including some international organizations, started to assert that debt is good for economic growth. The enthusiasm about debt for economic growth however did not last long. Along with the perceived crisis in the international financial market brought about by the debt problem of some developing countries, there has now emerged a new view that equity capital is better than debt capital for economic growth of developing countries. But the distinctive effect of debt capital vis-à-vis equity capital on the growth performance of developing countries has not been systematically examined yet.

This article examines growth effects of FDI, FPL, and foreign public loan (FA) by formulating a model consistent with the theory of economic growth to disentangle the issue raised above.
FOREIGN CAPITAL AND ECONOMIC GROWTH

Most of the economic growth models pertaining to developing countries consider capital the most important variable. These models attribute the lag in the economic progress of developing countries largely to a lack of sufficient investible capital and its productive use. The static 'vicious circle' concept of underdevelopment, the "quasi-equilibrium state" argument, the "low-level equilibrium trap" thesis, and the "stages of growth" theory indicate that the near subsistence income levels prevailing in many developing countries do not permit the mobilization of investible funds large enough to overcome the growth depressing effects which tend to be stronger at a low level of per capita income. Growth strategies such as the "big push," the "take-off," the "critical minimum effort," and the "absorption of surplus labour" which suggest for breaking out of the traditional stagnation assign capital formation a central role in the process of economic growth.

Capital formation requires savings and their investment in a productive way. But developing countries cannot save as much as they could usefully invest. In some cases, even if savings are enough to meet required investment, it may not be possible to carry out investment projects because of inadequate foreign exchange resources to pay for materials and components of capital goods that must be purchased abroad. The former is known as the "savings gap," and the latter a "foreign exchange gap" (Chenery and Strout, 1966). Besides, developing countries are generally short in entrepreneurship and technology. Their absence or underdevelopment hinders innovations and productivity growth, among other things. It is often suggested that an inflow of foreign capital helps developing countries to fill in these gaps and to overcome these constraints.

There are voluminous empirical works dealing with the relationship between foreign capital and economic growth of developing countries (Bornschier, Chase-Dunn and Rubinson, 1978). Although the literature appears to be largely controversial, at least two views concerning this relationship may be discerned (Riedel, 1979). In one view, an inflow of foreign capital is considered to constitute a net addition to resources available for investment, and hence an exogenous factor to stimulate economic growth. In another view, an inflow of foreign capital is considered to have induced public and private sectors to save less and to consume more domestic resources, producing a growth-depressing effect. The basis for this claim is that some researchers consider savings in developing countries to be mainly a function of government pol-