

## [Enterprise, rather than aid, will boost the development of poorer countries](#) [1]

Written by [George Layton](#) [2] | Friday 9 August 2013

The Adam Smith Institute featured on Bono's website when he discovered that the ASI had advocated canceling poor countries' debts before churches and charities promoted the idea. Now Bono features on our site for his speech at Georgetown. He said: "In dealing with poverty here and around the world, welfare and foreign aid are a Band-Aid. Free enterprise is a cure."

This is correct. Simply giving developing countries money often does not benefit them in the long term. Even in the short term the aid often fails to reach the people who need it; some of it might be diverted to a corrupt government. And sometimes it might be used to prop up dictatorial regimes.

Free enterprise is the cure because it can enable poor countries to generate wealth instead of depending on tiny transfers of it from richer countries. Developing nations become wealthy by enterprise and trade, not by aid, and inward investment is a potent way of assisting this with a range of spillover benefits. It boosts the business environment by assisting capital investment; around the world it accounts for about 15% of domestic capital formation.

The OECD points to its role in triggering technological advance. Technology is transferred from the developed country in four ways - migration of skilled labour; the internationalization of research and development; horizontal linkages with competing companies in the same industry and vertical linkages with suppliers or customers in the developed country. Inward investment also leads to human capital growth (or formation) and contributes to international trade integration. The OECD concluded that inward investment benefits income and factor productivity growth more than domestic investment.

Critics point to repatriation of profits and low taxes paid by multinational investors, but they miss the point. It is the profits and the low taxes that attract them to developing countries, and their economic activity creates jobs and infrastructure there and efficiently channels the countries' natural resources onto international markets.

Developing countries can play their part. They can privatize the nationalized corporations often corruptly run by political cronies. They can set up special economic zones as Deng Xiaoping did so successfully in China. They can boost education as Singapore did early in its development. They can create a tax-friendly environment to encourage more investment, and they can have low local income tax rates to increase domestic consumption to help fuel their growth.

The developed countries also have their role. In addition to investment they can set examples of responsible corporate policies that respect property rights, treat their workers correctly, and keep clear of corrupt officialdom. Most of all, they can open their markets to the goods produced in poorer countries and enable them to create wealth by trade, just as they did themselves when their own economies advanced.

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