

*Kingdom of Saudi Arabia*  
**Ministry of Higher Education**  
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# **An Assessment of Foreign Aid as an Instrument for Bridging the Gap between Rich and Poor Countries**

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### Abstract

The primary objective of this study is to evaluate and analyze the construct of foreign aid as an instrument of bridging the gap between rich and poor nations.

The study is an attempt to respond to the major following research problem : to what extent foreign aid can bridge the gap between rich and poor countries. In addition, four research questions are endeavored to be answered. These are as follows : to what extent is the provision of foreign aid influenced by the humanitarian rationale? To what extent is the provision of foreign aid influenced by donor's political interests? To what extent is the provision of foreign aid influenced by donor's economic interests ? To what extent is the provision of foreign aid is influenced by donor's defensive interests?

While the vehicle for generating data is based on library research, the methodology for data diagnosis is grounded on description, analysis, and critique.

The study results indicate that only weak relationship exists between foreign aid and the process of bridging the gap between countries of the North and countries of the South. While modest relationship is found between the provision of foreign aid and serving the humanitarian purpose, strong relationship is recognized between the provision of foreign aid and serving the donor's political and economic interests. Also, average relationship is noticed between the provision of foreign aid and serving the donor's defensive interests.

The recommendations of the study deal with the opportunity for administrative scholars and government practitioners to refine the concept of foreign aid as a mechanism for reducing the

## **I- Introduction :**

The primary goal of this article is to assess and analyze the concept of foreign aid as a mechanism for reducing the inequality between rich and poor nations. With this objective in mind, the study is significant in relation to the international development and the North-South dialogue. Public administrationists ought to be aware of the dynamics of interaction between developed and developing countries with reference to foreign aid. More specifically, practitioners of international administration and development administration must be cognizant of the role of foreign aid as an instrument for North-South collaboration or conflict. One of the major themes of the most recent conferences of the American Society for Public Administration (ASPA) is an emphasis on the importance of global administration.

After exhaustive search and to the best knowledge of the author, no single study has

aid as a tool for reducing the chasm between rich and poor countries. The significance of this paper is not to expose the volume of aid moving from rich to poor nations, but rather to qualitatively analyze the construct of foreign aid as a mechanism for reducing the inequality between the North and the South. Appropriate policies and decisions can be made when development administrators are well-informed of the theoretical structure of aid and the motives for its provision.

Although many studies have been conducted to uncover some features of foreign aid, they are either parochial in their coverage or predisposed in their orientation. Paul Rosenstein Ronden focuses his study along the theory of the "big push", where large infusions of aid can accelerate development in all dimensions in poor countries.<sup>1</sup> Hollis B. Chenery and Alan M. Strout emphasize the positive contribution of aid in relieving specific bottlenecks inhibiting domestic

aid contributes only to alliviate the often sever negative impacts resulting from the contraction that occurs during the adjustment process of poor nations.<sup>3</sup> Another study conducted by Milton Friedman determines that foreign aid is likely to impede improvement of the well - being of the poor.<sup>4</sup> In his study of foreign aid David Sharref reaches a conclusion that loans from the rich to the poor are too political and are driven by Western agenda.<sup>5</sup> Influenced by the dependency theory, Andre Frank establishes in his research the results that aid hastens a growth process whose major feature is underdevelopment for the recipient.<sup>6</sup>

Other recent studies are also particular in their focus. Tony Addison discusses the impact of international program aid on poverty and the poor and determines that poverty goals must be clearly defined and important support and debt relief must be considered in terms of their effects on poverty.<sup>7</sup> Jeremy Shebat

that the program appears to have prevented widespread malnutrition and mortality.<sup>8</sup>

Johan Pottier, however, infers in his research that aid agencies' ignorance of Rwandan culture has resulted in a number of problems for relief agencies such as reduced refugee confidence in humanitarian agencies.<sup>9</sup> Finally, in her analysis of the European cooperative development work in Latin American, Irene Horejs establishes that even well-intentioned development projects can disrupt local social relations as donor interests and procedures coopt local leadership.<sup>10</sup>

Accordingly, the central contribution of this study is to assess comprehensively the theoretical framework of foreign aid and the donor's motives for providing aid in order to give answer to the following primary research problem : to what extent foreign aid can build the capacity of local leadership

From the above primary research problem, other research questions are attempted to be answered. These questions are as follows :

-To what extent is the provision of foreign aid is influenced by the humanitarian rationale ?

- To what extent is the provision of foreign aid influenced by donor's political interests ?

- To what extent is the provision of foreign aid influenced by donor's economic interests ?

- To what extent is the provision of foreign aid influenced by donor's defensive interests ?

Therefore, the study is constructed to test one primary research hypothesis and four secondary research hypotheses. The primary research hypothesis is as follows :

H<sub>1</sub> : There is a significant relationship

poor countries.

The four secondary research hypotheses are the followings:

$H_{s1}'$  : There is a significant relationship between providing foreign aid and serving the humanitarian rationale.

$H_{s2}^*$  : There is a significant relationship between providing foreign aid and serving the political interests of the donor country.

$H_{s3}^*$  : There is a significant relationship between providing foreign aid and serving the economic interests of the donor country.

$H_{s4}^*$  : There is a significant relationship between providing foreign aid and serving the defensive interests of the donor country.

The methodology of this study is based on descriptive analysis of important literature

Thus, the vehicle for generating data is founded on library research where extensive review of literature has been conducted. The method for hypothesis testing and data diagnosis is grounded on qualitative reasoning. Deep analysis and critique of scientific trends of the subject have been employed for the purpose of reaching objective findings.

## **II. Definition of Foreign Aid:**

Foreign aid implies the notion of a gift, or assistance provided, of unilateral transfer, of a quid sine quo. This means that not everything that results in a transfer of resources, and that is often loosely accredited as aid, is in fact incorporated in the definition. For example, private foreign investment, export credits, and public loans at commercial rates of interest do not symbolize foreign aid, regardless of their usefulness to the recipient, since there is a quid pro quo - actually, sometimes the quid is

Foreign aid is synonymous with official development finance, whose basic characteristic is that the flows come from official sources and have as a primary objective the promotion of the recipients' economic development. Specially excluded are transfers of private funds from voluntary agencies, assistance provided by the International Monetary Fund (IMF) - generally considered short-term financial transactions, not development assistance-military assistance, and official export credits. Although these flows are often considered foreign aid, they are either not from official sources or are provided largely for reasons other than the promotion of the recipient's development. Thus, analyzing their development impact or effectiveness is outside the scope of this study with the exception of military assistance.

Foreign aid as defined here includes three major elements<sup>12</sup> :

1. Concessional flows to developing countries from individual donor countries, bilateral official development assistance (ODA) as established by the United Nations at a target rate of 0.7 percent of donor's GNP. To qualify as ODA, the flows, in addition to being official and developmental, must be highly concessional (i.e., they must have a grant element of at least 25 percent)

development institutions, multilateral ODA. This includes funds from the International Development Association (IDA), U.N. Development Program (UNDP), World Food Program (WFP), and the concessional assistance provided by the Organization for Economic Cooperation and Development (OECD) and members of the Organization of Petroleum Exporting Countries (OPEC). This type of assistance is provided by the "soft window".

3. Near market loans rendered by multilateral development institutions, nonconcessional multilateral flows. This assistance is provided by the World Bank and the regional development banks through the "hard window" formula.

Foreign aid is also given in different forms and shapes for different purposes. Thus, in order to understand the complexity of official aid one must be able to distinguish between the several forms of aid. In essence, there are four different forms of foreign aid<sup>13</sup>.

### **1. Bilateral Versus Multilateral Aid:**

The differentiation between bilateral and multilateral aid in its purist sense is very clear. Bilateral aid is when one single donor

The multilateral aid, on the other hand, is when a global or world agency, normally part of the UN system, transfers resources directly to a recipient government or group of governments. It is important to note that when donor governments provide their aid through multilateral institutions, they give up a substantial part of their political leverage over recipient countries.<sup>14</sup>

## **2. Hard Versus Soft Aid:**

The issue of allocating aid among different countries is based on criterion of need and criterion of capacity to utilize the aid effectively. In some cases, of course, the answer should be both. Generally, aid given on the principle of need is called soft aid, in which there is no payment obligation. An example of soft aid is financing rural public works for the goal of employment creation. On the other hand, aid provided upon the criterion of effective use is usually hard aid where repayment is required out of the increase in production.

## **3. Project Versus Program Aid:**

Aid is either provided for particular use of a specific development project (e.g., constructing a dam, building a

(e.g., aid for budgetary support, or a credit line of free foreign exchange). Whereas donors generally prefer project aid in order to use it as an influence to force their ideas on poor countries, recipients favor program aid since it gives them greater latitude to solve their problems.<sup>15</sup>

#### **4. Tied Versus Untied Aid:**

Tied aid is when the recipient, as a stipulation of the aid, is obligated to use the aid money to purchase goods from the donor country only. However, untied aid is like free foreign exchange in that the recipient can use the donor money to buy goods and products from any country. It is obvious that the tied aid is less valuable to the recipient than untied aid. With untied aid the recipient can purchase the most suitable product in the cheapest market.<sup>16</sup>

### **III. Theoretical Framework of Foreign Aid:**

One of the fundamental assumptions of the

using this nomenclature to describe a wide range of activities in developing countries, all donors are in part expressing a consensus that all sorts of objectives which they would like to pursue could best be attained by a single activity aimed at promoting a process called "development".<sup>17</sup> Donors provide aid on the assumption that it has a positive influence upon the economic growth and development of the recipients. Official aid is now termed "development assistance", and the donors club of Organization for Economic Cooperation and Development (OECD) member nations is called the Development Assistance Committee (DAC). Not only is the DAC careful to differentiate military aid and commercial transactions from development assistance, thereby implying that it is the latter category of funds that is a cause and instrument of development. But in order to be called "aid", funds from DAC members have to meet certain criteria, one of which is that they must be administered with the promotion of economic development and welfare of poor countries as their main objective.

It is interesting to observe that a sizeable amount of intellectual effort has been exerted to analyze the impacts of the official aid on the economic development of the recipient countries. Whether by accident or logic, the attention of economists and development analysts to the phenomenon of

the rapid expansion in the quantities that numerous countries were providing in the mid-1950s. The main objective of the pro-aid theories is clearly to put forward an explanation of how aid contributes to accelerating development in poor nations.

One of the first people to make explicit reference to contemporary Keynesian growth theory and to consolidate his conceptualizations into the economic objective of providing aid was the American, Walt Rostow<sup>18</sup>. Rostow's historical stage development hypothesis envisioned the following stages: (1) the traditional society, (2) the long period during which economic and social preconditions for growth are evolved, (3) the relatively short period of take-off into self-sustaining growth, (4) the expeditious advance to maturity, and (5) the era of high mass consumption.<sup>19</sup> The chief argument in Rosow's approach is located in his construct of the take-off as a unique stage in development which necessitates the following three related conditions: (1) a rise in productive investment, (2) the growing of one or more manufacturing sectors with a high rate of growth, and (3) the existence of a political, social and institutional structure instrumental to the transmission of impulses to expansion throughout the economy. Rostow proposed that domestic savings during the

of investment needed for the enlargement in the growth rate. It was this element of the take-off hypothesis that was seized upon by many development economists to justify the provision of official aid to create the take-off process and assure the rapid accomplishment of self-sustaining growth.

The functions of foreign aid were magnified by several development economists to encompass an acceleration of the preconditions for the attainment of sustained growth. These preconditions were to be established by hefty infusions of aid for infrastructure, without much concern to the social and institutional changes that demanded centuries before the present developed countries reached Rostow's take-off stage. The promotion of development on all dimensions emerged from the "balance growth theory", which hypothesized that if all sectors, including industry, agriculture, infrastructure and human skill development could flourish at comparatively rapid rates at the same time, the conditions for the take-off could be accomplished without the long historical period undergone by the older developed countries. Paul Rosenstein-Rodan expounded this approach in a series of articles in the early 1960s which was formally developed as the theory of the "big push".<sup>20</sup>

two-gap model formulated by Hollis B. Chenery and Alan M. Strout. It is significant that Chenery was Assistant Administrator for Program in the U.S. Agency for International Development at the time when he was developing his theory, and subsequently became senior economist, then vice-president of World Bank. The Chenery-Strout two-gap model synthesized three dispositions of thinking of economists for estimating foreign aid requirements. These were (1) the skill limitation, essentially the capital absorptive capacity approach; (2) the gap between investment needed to accomplish a given rate of economic growth and domestic savings; and (3) the gap between foreign exchange requirements to maintain the indispensable level of domestic investment and the country's foreign exchange earnings.<sup>21</sup>

Thus, a country's progress toward the objective of self-sustaining growth at given target rates could be thwarted during different periods or steps by the skill limitation, the savings limitation, and the foreign exchange limitation. It was contended that financial assistance could play a significant role in relieving each of these obstacles and could stimulate the level of investment required to attain eventual self-sustaining growth. The working of the model for any particular country presupposed the

the necessary investment, and a rate of growth of exports in excess of the import growth rate, so that exports would eventually rise sufficiently to surmount any foreign exchange constraint.

According to Chenery and Strout, aid contributes positively by relieving certain specific bottlenecks inhibiting domestic growth and development, and in fulfilling this role it increases the efficiency of the domestic resource base. Descriptively the theory is summarized thus:

"A country setting out to transform its economy without external assistance must provide for all of the requirements of accelerated growth from its own resources or from imports paid by exports. Success thus requires a simultaneous increase in skills, domestic saving, and export earnings as well as an allocation of these increased resources in such a way as to satisfy the changing demands resulting from rising levels of income. The attempt to increase output can be frustrated by failure in any one of these attempts, even when the others have been quite successful. When growth is limited in this way by a few bottlenecks, there is likely to be under-utilization of other factors such as labor, natural resources, and specific types of productive capacity. By relieving these constraints, foreign assistance can make possible fuller use of domestic resources and hence accelerate growth."<sup>22</sup>

The primary concern in this section is not

provision. Of particular interest to us here, therefore, is the theoretical bases for providing aid for adjustment, and whether and to what extent the conventional aid theories are consistent with or challenged by the apparently new rationale. The adjustment process is fundamentally a transition from what is perceived as an inviable process to a sustainable one. Seen in this fashion, interventionist adjustment policies aim to change structures within an economy so that self-sustaining and expansive development will occur. Thus, the adjustment concept is understood as a pre-condition for economic development and self-sustaining growth.

The adjustment theory suggests that aid is given to accelerate the development process through its traditional gap-filling role. As Killick states that the adjustment process that has to achieve large results over a brief period will have to concentrate on the repression of demand and the compression of imports. He further points out that such a process is likely to have significant detrimental impacts on output, employment and factor incomes.<sup>23</sup> Adjustment policies are likely to lead to a lowering of investment levels, falls in the saving ratio, and even an overall decline in the level of national expenditure. Thus, the justification for giving aid is to provide some slack to cushion the often severe negative effects of adjustment.

policies concentrate upon balance-of-payments difficulties, that aid is given to support debt-service payments or to maintain consumption of investment levels higher than would have been possible without the aid inflow. Within the context of the adjustment theory, aid is perceived to be neither necessary nor sufficient for development to occur, its role is to expedite the development process. Likewise, aid is not seen as either necessary or sufficient to attain adjustment, but its infusion into an economy that is adjusting is provided to hasten the required process of structural change.<sup>24</sup>

In closing this section, one is inclined to argue that there is a strong theoretical justification for providing aid to poor countries. Yet, sadly, donor countries seized these hypothetical assumptions on their face value without rigorous experimentations in order to exaggerate and oversell their pronounced aid objective, which is accelerating economic development of the South. Hence, it can be deduced that only weak relationship exists between foreign aid and the process of bridging the gap between rich and poor nations.

#### IV. Donor's Motives for providing Aid:

term is quite inaccurate because "aid" encompasses loans as well as grants. But it at least has the merit of brevity, and is certainly preferable to some of the more elaborate circumlocutions that have been suggested. It has been observed that there is uncertainty, not only about what aid has achieved, but also about how we should evaluate that achievement once we have identified it. More importantly, perhaps, it has not always been clear what the donors are really trying to achieve.

Since no policy can be effective if its purposes are unclear, a new examination of the fundamental premises of foreign aid seems imperative, especially in its present form of assistance for the long-range development of underdeveloped countries. The question of what donors do is often discussed in terms of their motives, concern for poverty, the desire for political hegemony, a belief in global interdependence, and so on. Most if not all of the commonly mentioned motives are present in varying degrees in most if not all donor countries. To construct an exact association of motives in each case would require an exercise in social psychology which would only be worth while if it could be shown that differences in the assortments of motives gave rise to significant differences in the choice of objectives and of action intended to

have been transferred from the North to the South on a large and growing scale in the last thirty years. This is very much a post-war phenomenon and it raises the question of why it has occurred. What interests, considerations, motives have generated such a large official flow of funds and their particular geographical distribution? Governments usually state that they provide assistance to other countries to assist their economic development. An interest in development per se, of course, implies a purely humanitarian motive but governments are also moved by other ulterior motives.

The author in this section of the essay directs attention principally to consideration of one question: Why do rich countries have a foreign aid program? However, this one question takes on many configurations. What are the purposes of foreign aid and can they be accomplished? Should foreign aid be regarded as mainly moral, political or economic, for the sake of the donors or the sake of the recipient countries? Are the interests of the donor countries and the need of the poor recipient nations mutually exclusive or truly compatible?

#### **1. The Moral and Humanitarian Rationale:**

is not only because the proposition includes three different factors - moral obligation, governments, and foreign aid - but because foreign aid is not an end in itself. Many writers argue that there are three situations causing the moral obligation to exist.<sup>25</sup> They are the needs of extremely poor people in extremely poor countries, the deepening inequalities between the haves and have-nots, and thirdly, historical relationships conceived as unjust and requiring restitution. To accept one situation is sufficient enough to form the basis for building up the total moral case.

Most concerned thinkers favoring the moral and humanitarian case for official aid have been preoccupied with providing a justification for the obligation to help, and a large part has taken as its starting-point the needs of the Third World poor. Many individuals are satisfied to say that they believe things are right or wrong and are self-conscious about having to justify their beliefs. Indeed, many civil servants and politicians are particularly hesitant to offer a precise justification for official moral standards. Yet, if pushed, many of them would be inclined to agree that their belief rests on their conception of what it means to be human - a shared humanity.

giving aid:

"In my view, the most fundamental argument for international cooperation in development is that human beings, wherever born, should be able to develop to the fullest extent their capacities, both in order to fulfill themselves and in order to contribute to the common heritage of civilization. The simple argument for making sacrifices in order to assist development in this: we, the rich, are partly (though only partly and arguably) responsible for the poverty of the poor; we can do something about it: it follows that we ought to. The argument rests only partly (and controversially) on our responsibility. Even if we had no share at all in responsibility... the humanist belief in the brotherhood of man imposes certain obligations to alleviate misery and to aid in the full development of others where we can."<sup>26</sup>

Another writer, Nigel Dower, reflecting similar sentiments bases his philosophical theory of assisting on the concept of the human good. He stresses the notion that extreme poverty is an evil which ought to be eradicated and points to the need for those in one country to be concerned with removing evils in other countries. The fundamental principle of the human good is based on an understanding of being human and what is needed for human well-being. He maintains that:

international social justice that we should assist in the process of development. If we look at matters in this light, we can see governmental aid, not as an act of charity, but as part of the 'tax' paid by richer countries to be used to alleviate poverty in poorer countries -- just as the rich pay taxes which are used to finance the welfare services within Western countries."<sup>27</sup>

It is not surprising to find that advocates of foreign aid and those who believe that there is an obligation to provide it have frequently based their claims on a principle of justice seized in the phrase "to each according to his needs." David Miller in his book Social Justice expounding on needs based theories contends that what constitute harm are action that impede the development of a person's plan of life. Two types of activities for fulfilling life plans are created: essential and non-essential. Essential activities include those which are imperative to support them, such as eating and drinking. Therefore, in order to determine what a person's needs are, we must establish what activities are essential to the accomplishment of his plan.<sup>28</sup> Thus, the motive of the official aid is based on an understanding of what the essential needs of the mass of people in poor countries are, and the obligation to relieve suffering and

Many proponents of the moral obligations to help find comfort in the theory of utilitarianism. It has been argued that the main purpose of providing financial assistance remains the profound intuition most people have that unrequited transfers from the averagely richer people of rich areas to the averagely poorer people of the poor areas usually add more utility to the latter than they inflect disutility on the former <sup>29</sup>. Broadly speaking, the utilitarian concept builds on the basis that the ultimate justification of any action over or against any other action is that it produces the greatest amount of happiness. This becomes a distributive rationale because of the necessarily link between happiness and the resources is justified by the total amount of happiness producing. Thus, the theory of utilitarianism contends that there is a moral obligation to help underdeveloped countries since assisting those in need necessarily creates overall more happiness that otherwise would have been absent without the help.

In concluding the moral and humanitarian argument of giving aid, it is important to note that most if not all donor countries appeal only on the surface to the purpose of morality in their official documents on aid. Although rare, it can be said that when the

compatible to the recipient country's needs. Thus, it can be determined that modest relationship is found between foreign aid and serving the humanitarian rationale.

## **2. The Political Motive :**

Unfortunately, the basic and long-range objective of foreign aid is political. It is not humanitarian nor economic development per se. The primary purpose of foreign aid is to protect donor's own national interests, especially its national security. It is to supplement and complement the efforts of the developing nations to enhance their strength and stability and to defend their ideologies. Success in these efforts was necessary to counter either the spread of communism in the case of the United States of America, U.S. aid, or to counter the penetration of Imperialism in the case of what used to be called the Union of Soviet Socialist Republics, U.S.S.R. aid. The growth of strong independent nations which are effectively satisfying the political, economic and social demands of their people contributes in many ways to the national security of either Western aid-giving countries represented by Development Assistance Committee (DAC) or what used to be U.S.S.R. and its Eastern allies.

appropriate and required.<sup>30</sup> It is on this phase that three dynamic forces confront each other: potential Communist expansionism, Western aspirations for congenial values and institutions, and the internal inability of the developing societies themselves. It is in the Third World nations that the basic East-West conflict of opposing ideologies and interests is versatile. Therefore, most of the developing countries seem to see their interest in remaining uncommitted and avoiding big-power domination.

As a consequence, foreign aid becomes a major instrument of foreign policy utilized to influence poor countries to cooperate with aid donors.<sup>31</sup> Economic assistance are used to prevent political and economic conditions from deteriorating in developing countries where donors wish to sustain the present government. Those who find the ultimate justification for aid in its contributions to national security rely upon one or another of two incompatible doctrines. One doctrine claims that the security objective can be served by using official aid to transform the fundamental character of the culture and institutions of the recipient country. Max F. Millikan and W.W. Rostow, who advance this contention in their authoritative book, A Proposal, state that it is a serious misconception to believe that the mere creation of wealth will meet

the real importance of aid is that it will set off social, political, and psychological changes that will energize the society, point it in the direction of democracy, and incline it toward peace.<sup>32</sup> The other doctrine takes the fundamental structure of the recipient country as given without seeking to change the culture or institutions of the society, but it attempts to directly influence governments or public opinions. This takes several distinct forms, an example of which is *quid pro quo* where aid is part of a bargain between two governments in which there are clearly specific advantages to both sides. For instance, the U.S. might agree to build a system of highways in a poor country in return for assurances that China would not be allowed to intervene in that country.<sup>33</sup>

It seems to be now appropriate to give an illustration of a donor's political motive for providing financial aid to Third World countries. According to Jacob Kaplan, the political rationale for the U.S. to provide official aid is to protect its national security interest in developing nations which falls into four categories: (1) rebuffing Communism threats to take them over by overt or covert aggression; (2) using their military forces and territory for reinforcing U.S. ability to defend both its own land areas and other threatened by Communist aggression; (3)

and institutions to that of the U.S.<sup>34</sup> However, the U.S. political objective is a continuing source of friction and disagreement between AID officials and the State Department officers. One "good" Communist scare in the past has instantly caused a stepped-up speed of aid activity. This is so largely perceived that government officials in several developing nations where communism has not been a threat have demonstrated that they should "import" 1,000 Communists as a strategy for receiving a larger share of U.S. aid.<sup>35</sup>

Regardless of what official documents say, the political purpose is frequently preponderant in aid policies. Since aid does cost the donors something, what do they get in return? The obvious answer is that donors buy "leverage". They use the aid to seek to bring about compliance of the recipients with some forms of action favoured by donors. A vote in the United Nations is a commodity of a reasonable value. A permission to construct military bases and maintain a military alliance is of great political strategic interest. And the general tendency for the recipient country is to maintain a strong trading ties with the donor.

National security and interest represent the most clear-cut goals for the political rationale. American aid was provided to

French aids to former African colonies is provided in returns for favourable votes at the United Nations on major issues. Cases in which aid had clearly brought identifiable political advantages to the Communist regime a whole notably were the Aswan High Dam in Egypt and the Tan-Zam railway linking Tanzania and Zambia. Britain was successful in its attempt to block a \$200 million World Bank loan to Egypt after Colonel Nasser purchased military equipment from the former U.S.S.R. And finally, countries may seek a third a quid pro quo of a different kind when the U.S. provided aid to Turkey in the expectation that the authorities there would reduce the amount of marijuana being produced (and largely smuggled to the U.S.A.)<sup>37</sup>.

In closing the argument about the political motive, one must ask the question that whether or not donor's political motive for providing aid is congenial with the need and interests of the poor recipient country. Without being pessimistic, it is a general belief that when the developed nations give aid to achieve political objectives, they hardly ever pay any attention to the general welfare of the poor countries. They are only preoccupied with bolstering the incumbency of political leaders and social and economic elites deemed best for their political

political rationale of the donor country is, in my opinion, the least compatible to the recipient's needs and interests. Accordingly, it can be concluded that the provision of aid is strongly related to serving the political interests of donor countries.

### **3. The Economic Motive :**

The long-range economic interests of donor countries are to maintain and expand world commerce as well as an increasing supply of imported raw materials from the recipient countries. In general terms, rich countries provide official aid to poor nations because they are interested in a world economy organized on principles of comparative advantage and the international division of labor, helping the rich to specialize in what they do best. In essence, the economic case seems even stronger than the political case. As an explanation of aid, however, it has to assert with the fact that rich countries do not appear to see their own interests in these terms.<sup>38</sup> In the 1980s, the method of which official aid supplemented tended to be one of import substitution rather than export stimulation, particularly in Latin America and the Middle East.

There is no doubt that one of the most persuasive motives pursued by donor countries

governments have sought to justify and develop domestic economic interests. The promotion of long-term, broad-based economic development in the recipient countries is mainly to serve rich countries, long-term economic and commercial interests, since development is assumed to increase the demand for products and services produced in donor nations.<sup>39</sup> Hence, the economic objectives of the donors are to guarantee continuous supplies of cheap raw materials from the poor countries and to open new markets with potential purchasing power to buy their expensive manufactured goods and services.

Despite the reliance of the developed nations upon raw material imports from poor nations and the dependence of the developing countries on capital goods and other manufactures from the industrialized countries, it is nonetheless true that as a general hypothesis the greatest trade takes place among the rich countries.<sup>40</sup> Therefore, donor economic and commercial interests are often pursued in a much narrower and much shorter-term perspective and perceived through much more direct means. Donor nations have employed a number of techniques, such as direct and indirect tying of aid to procurement in the donor country and the extensions of a mixed credits designed to multiply their exports of goods and services.

pulations that the financial aid be used to finance imports as opposed to local costs and to fund capital instead of funding recurrent costs.<sup>41</sup>

It is essential to note that the economic interests of the donor countries are deviously injected in a more honorable cause which is to promote development in underdeveloped countries. That official aid helps to promote development is the most enduring and widespread reasons given by official donors for providing it. Indeed, even if its motives are more political than economic and even if the decisions about which countries are to receive it and based explicitly on political criteria, the giving of aid is always said to result in more rapid development and sustained economic growth. Therefore, donors argue that if sustained economic growth of the developing countries is maintained, trade will increase to the mutual benefit of all. In short, donors provide aid on the assumption that it has a positive influence upon the economic growth and development of the recipient and almost certainly a significant advancement for their exports. Thus, more aid is expected to lead to higher rates of growth resulting to the process of "take off" into self-sustaining growth and this in turn will create high mass consumption causing higher volume of imports by the developing countries. Is not this what the donors want?

notion that whether the donor's economic interests are harmonious with the recipient's needs, one has to construct some hypothetical situations. If aid indeed did make its magic of "big push" and "take-off" into self-sustaining economic growth of the poor nations, then the donor's economic interests and the recipient's needs would be in accord. On the other hand, if aid did retard development and improvement in the well-being of the masses, as has been argued, then the economic interests of the donor and the economic and developmental needs of the recipient would be diametrically opposed. As a whole, strong relationship is recognized between providing aid and serving the economic interests of donor countries.

#### **4. The Defensive Motive :**

Donor countries provide financial assistance to Third World countries in order to accomplish strategic defensive purposes. Because of the importance of the defense interest, donors usually designate military aid as a distinct form of other aid categories. Since military aid is specifically donated, it might seem easier to extrapolate its objectives. However, this is not always the case. Military assistance to developing countries is particularly difficult to

account for but a small fraction of the donor military aid to poor countries. Much of it takes the form of operating costs, maintenance and repair parts, training, and construction costs. In the absence of military aid, many of these expenditures would be made anyway, but at the expense of the civilian economy.<sup>42</sup>

Yet, several conspicuous defense goals can be observed. For instance, Nicholas Eberstadt argues that the purpose of U.S. military and security aid is to apply American power internationally by: first, strengthening the defensive capabilities of states in the American alliance structure; second, assisting friendly nations quell internal political or military disturbances; and third, helping friendly nations in buying breathing space and, with luck, in regaining or retaining stability.<sup>43</sup>

Beginning in 1947, the U.S.A. began to establish with other Western countries a network of mutual defense alliances and undertook to assist its partners to increase their strength by providing weapons, equipment, and training, plus essential economic support. The formation of NATO was an essential reaction to the Communist aggression in Europe and Asia subjected some 14 nations, covering over five million square miles and including more than 700 million

force or threats of force or propaganda or internal subversion to accomplish its frequently stated goal of world domination and control.<sup>44</sup>

In the 1950s, the world was divided into two superpowers represented by NATO and WARSAW on the one hand, and defenseless underdeveloped nations on the other hand. Hence, in order to meet their national security requirements, the two powers launched extensive military aid programs aimed at strengthening the defensive capabilities of the developing countries either to deter Communist aggression and expansionism as in the case of the U.S.A. or to sabotage the capitalist and imperialist hegemony as in the case of the former U.S.S.R. Their military assistance is provided to maintain bases and leverage over the poor nations of the world. Even though the need for military bases has dwindled in the star war and missile age, some are still considered vital to the security of the donor countries. The need for collective security arrangement and the military and economic strength to support them is also in the security and national interest of the donors. This is evidenced in the recent collective military and economic operation taken by the U.S. and other allies to confront the Iraqi invasion of Kuwait.

is inclined to say that it is contingent upon the particular situation of the recipient country. For instance, other Gulf States would have been threatened by Iraq, had not the international coalition deployed their forces in due time. On the other side, we see India and Pakistan devoting some of 50 percent of their total budgets, which are heavily dependent on foreign aid, to defense while their own people are dying of diseases and starvation. Hence, it can be concluded that average relationship is noticed between providing aid and serving the defense interests of donor countries.

## **V. Foreign Aid and the Poor,** **Critical View:**

In this Section, particular concern is given to the criticisms waged against foreign aid. Critics have challenged almost every dimension for official aid ranging from doubting its effectiveness to help poor countries to rejecting the moral case for official aid.

The most shocking criticisms against official aid have come from those critics who reject the moral obligation to help. They based their argument on the notion that states have no obligation to intervene at all, be it

attack on the various elements of foreign aid challenges the theories of justice that are utilized to support the moral argument. Bauer employed several related measures to object the moral case for foreign aid based upon need, egalitarianism and history. He asserts that economic differences are deserved and are based mainly on the individual differences of people, not on resource availability, the differences that exist cannot be unjust because they have arisen out of just procedures. Needs can not provide a basis for providing aid, he argues, because there are no common needs, the thought that people's requirements are fundamentally the same everywhere is unaccepted. In Bauer's opinion, even if poor people did have needs that required satisfying, this is insufficient basis for providing assistance because it ignores the critical question of why some people have unmet needs and others do not. For him, economic differences are deserved.<sup>45</sup>

Friedrich Hayek is another persistent critic of theories of social justice which would imply moral obligation to provide aid. For Hayek, coercion and injustice can only result from deliberate action, but as market arrangements cannot have purposefully ascribed to them, their outcome can not be unjust. If the process by which distributive shares arise is just, then outcome inescapably has to be

Hayek argues that to single out some people in such a society as entitled to a particular share is evidently unjust.<sup>46</sup>

Moreover, there are those critics who accept that there is an obligation to help poor countries but, in different ways, challenge the means chosen for the provision of official aid to achieve the economic development goals. Within the development literature, aid is under attack from both left and right because of its failure to attain the objectives for which it is given such as relieving poverty, reducing inequalities, and contributing to overall socio-economic development. Generally speaking, the critics here are rejecting the conventional view that aid is a positive force in development.

Milton Friedman, whose conclusion about the effect of foreign aid on development states that foreign aid is likely to retard improvement in the well-being of the masses. This stark conclusion contends that what is required for development is rather an atmosphere of freedom, of maximum opportunity for individuals to experiment, and of incentive for them to do in an environment in which there are objective tests of success and failure, in short, a vigorous free capitalistic market. He further argues that it seems clear that a free market without central planning has been not only the most

of living for the masses of the people.<sup>47</sup> Thus, Friedman from both theory and evidence would suggest that governments should halt their development assistance programs.

Even more explicit and extreme in his rejection of foreign aid is Melvyn Krauss, whose argument is that aid not only fails to achieve the objectives of raising the living standards of the poor, it does positive harm. He further contends that even food aid for starving people should be stopped, since aid often ends up being used by governments in poor countries to subsidize politically powerful middle class and to keep themselves in power. In addition, aid given for humanitarian reasons typically winds up being used to support corrupt governments whose economic policies are not only biased against the starving, but destructive to the agricultural base of the economy. Therefore, he argues all government and multilateral aid through agencies like the World Bank should be eliminated because the biggest obstacle to economic development of poor countries is big government. Finally, he strongly concludes that if donor countries and World Bank were to discontinue their poverty program, the main beneficiaries would be the Third World poor themselves.<sup>48</sup>

A different set of arguments also

role that market forces can play in achieving the aid objectives. Those critics of the radical left are closely affiliated with the negative conclusions of dependency theory. Lappe, Collins, and Kinley in their book Aid As Obstacles argue that U.S. foreign assistance fails to help the poor and by providing it "instead of helping, we hurt the dispossessed majority."<sup>49</sup> Hence, they reject the provision of aid because it does not go to the poor who are powerless and hungry, but instead it goes to the powerful elite whose strangle hold over land and other productive resources generates poverty and hunger in the first place.

Teresa Hayter in her book Aid As Imperialism concludes that whether aid does or does not help the poor is rather beside the main point. She argues that the existence of aid can be rationalised only in terms of an attempt to preserve the capitalist system in the developing countries. Insofar as aid is effective in helping to preserve the capitalist system, Hayter concludes that its general contribution to the well-being for Third World is negative. Therefore, she contends that official aid under its "present form" is no answer to the problems of the poor and needy in the developing countries.<sup>50</sup>

Another forceful challenge against

the poor and has marginalized people in the poor countries of the South. The chief reason is that aid lubricates a system which is divorced from the rhetoric of what is supposed to achieve, in practice it supports and strengthens structures between rich and poor nations and within the poor countries themselves that lead not to development and to meeting the needs of the poor but to underdevelopment, increased marginalization, and increased alienation and lack of self-respect among the poor masses. For Mende, official aid is not solving the problems of the poor, thus, we must find different methods to approach the problems.<sup>51</sup>

Finally, the most effective critic of official aid has been dependency theory associated with writers such as Paul Baran, Andre Frank, Immanuel Wallerstein, and Rui Marini. The theory's views on the possibilities of independent development in the periphery are that these are non-existent short of engineering a radical severing of links with the capitalist center, and this is dependent on socialist revolution. The theory rejects the possibility of full development of the capitalist system ever taking place in poor countries. What comes about, rather, is the development or underdevelopment. Additionally, state power in the periphery is in the hands of a small elite which itself benefits from

and impact are assessed. First, aid is seen as an element in the dominant relationship of the center (the donors) to the periphery (the recipients). Second, the kind of development that aid encourages is essentially the dependent development that is already taking place, hence aid hastens a growth process whose major feature for the recipient is underdevelopment. It is in this regard that aid is perceived as part of the problem rather than a counter-force designed to provide a solution. Third, since official aid is channelled through recipient governments whose interest is to protract the process of dependence, aid further reinforces the process of underdevelopment by providing additional resources for domination. Thus, the dependency theory concludes that what is needed to relieve poverty and promote independent development is not aid but rather a basic requirement to change the power relationships between the North and the South.<sup>52</sup>

In concluding this section, an expression of disagreement can be voiced against those critics who totally reject the giving of aid to poor nations based on the deserved economic differences of people and that aid hurts rather than helps. However, the study tends to support the other critics among whom is Hayter, whose argument is that the

## **VI. New Developments**

At the beginning of 1990s, the world has witnessed many great changes leading to a major transformation in the old world order which was characterized by a cold war and two polarized camps. The transformation has resulted in the emergence of a new world order depicted by a closeness between East and West and a modified sort of collaboration and conflict between the North and the South. In this section, an attempt is made to shed some lights on these developments and their impacts on foreign aid.

Three principal incidents are responsible for the emergence of the new world order <sup>53</sup>. These are as follows : the disintegration of the old U.S.S.R. and Eastern Europe, the Gulf war, and the creation of the European Community market.

Mikhail Gorbachev, the previous president of the U.S.S.R., exposed the vulnerability of the marxist ideology and introduced new principles like perestroika and glasnost leading to the break up of the socialist nations <sup>54</sup>. The 1990 Gulf crisis was also

forces spearheaded by the United States enhanced the U.S. strategic position as the only world superpower. The European countries' establishment of a free European community market in 1993 sets the stage for the creation of other free regional markets such as NAFTA (North America Free Trade Agreement) between U.S., Canada, and Mexico, and ASIAN market for the Far East countries. Regional markets represent an advanced development for a global market regulated by the GATT (General Agreement for Tariff and Trade) and administered by WTO (World Trade Organization).

Since what has been termed a new world order is still under formation, divergence is abundant about its tenets and orientations. With this in mind, one can explore the essential elements of this new system. These elements are the followings:

- 1- The United States becomes the only world super power. This factor is supported by the view that political liberalism and economic freedom are the dominant forces globally. Some scholars like Fukuyama give this position the philosophical justification by claiming that it is the final victory for capitalism and liberalism; thus its is the "end of history" <sup>55</sup>.

tion through resolving conflicts by peaceful means, respecting international law, and balancing international relations are other tenets of the new world order.

3- Controlling armament by the countries of the South where reduction of arm sales is seen as an important factor for curtailing regional conflicts.

4- Enhancing the role of the United Nations, especially the Security Council, so that, it becomes able to make world peace and political stability.

One of the most recognizable outcomes of the new world order is what has been labeled "globalization". Although the construct is still evolving, it can be conceived as a unitarian form of life and culture based upon economic and political freedom and human rights. Freeing commerce, opening markets, global citizenship, and mass-consumption are its salient features. Its mechanisms for global consolidation include World Trade Organization, satellites, and information super highway (internet)<sup>56</sup>.

One can deduce the basic elements of

power of economics through opening and liberalizing world markets and institute competitive advantage as a dominant criterion in the market system. International Monetary Fund, the World Bank, and the World Trade Organization are the monitoring agencies.

2- Replace the power of governments by economic regional coalitions and international agreements <sup>57</sup>.

3- Create a global culture conducive to maintain the elements of globalization such as competition, mass-consumption, freedom, democracy through the power of the media <sup>58</sup>.

While it is too early to make rational judgement about the dynamics of foreign aid at the era of the new world order and globalization, one can extrapolate some trends of the issue.

Dominance and hegemony of this new system is positioned at the North, particularly within the United States of America. Some would argue further that the gap between the North and the South has gotten even wider under the new system. They cite that the number of multinational companies has more

25 % of total world trade to 37,500 companies in 1990 having a sale value of half the world gross national product<sup>59</sup>. Under this system, aid is provided to encourage poor countries to open their markets, privatize their economies, eliminate tariffs, democratize their political systems and therefore the periphery becomes more dependent on the center. Countries diverging from tenets of the new world order and globalization not only are cut off from aid, but also are sanctioned politically and economically. Thus, the new developments seem to exacerbate the situation of poor marginalization and intensifies the dependency of the South on the North.

## **VII. Findings and Conclusions :**

The findings of the study regarding the primary research hypothesis reveal that only weak relationship exists between foreign aid and the process of bridging the gap between countries of the North and countries of the South. The qualitative evidence extrapolated suggests that the objective of reducing inequality between rich and poor countries is deficiently realized.

With regard to the four secondary research

Although most donors express the humanitarian cause as a justification for their aid policies, the accomplishment of this goal has been at best limited. Other hidden motives by donors take on more importance than the humanitarian motive.

Strong relationship is recognized between providing foreign aid and serving the political and economic interests of donor countries. The provision of aid is heavily influenced by the extent to which it achieves the donors' political and economic objectives. These two purposes take on the highest significance than any other aims to be served by aid from the perspective of donors.

Finally, average relationship is noticed between providing foreign aid and serving the defense interests of donor countries. New arm technologies such as inter-continental missiles have reduced the significance of military bases for donor countries in developing countries.

#### VIII. Recommendations :

These recommendations deal with improving the mechanism of foreign aid and for developing countries to benefit from it.

inappropriate tool for bridging the gap between rich and poor nations. The study suggests, however, aid reforms and a changed form of aid that could achieve the goals of alleviating misery and poverty and accelerating economic development for the have-nots. The proposed new form of aid must have as its primary objective the reductions of the ever-widening gap between rich and poor countries. Foreign aid should not be used as an instrument for hegemony by the donor. Instead, it ought to be perceived as a formal international duty based on the doctrine "from each according to his ability, to each according to his need". Aid in this fashion requires the establishment of an independent world agency to carry out the allocation process to reduce leverage of donor countries and distribute aid in accordance with the need criterion. Further research should focus on this particular area to develop a rational and applicable model.

While the recommended reforms deal with the construct of foreign aid, the followings are specific recommendations for developing countries to benefit more from the received aid.

people who are in most need of help as opposed to any other group of people has larger positive effects according to the dynamics of the utility law.

2- Government officials of developing countries should acquire high negotiation skills when requesting aid in order to obtain soft aid, program aid, and untied aid instead of hard aid, project aid and tied aid respectively since they are more effective for the recipient.

3- Governments of the South should be aware of the motives of donor countries for providing aid. The awareness embodies the ability to weigh the multiple and conflicting interests for its provision. They should be able to maximize the recipient's interests while minimize that of the donor. It is rare that aid is given for serving the humanitarian cause alone, but rather it is provided to serve the donor's political, economic and defensive interests. Public officials of Third World countries should be rational and sensible in measuring the motives for giving aid from the donors' perspectives. They may apply some techniques like Pareto criterion to assess the motive and consequently the effectiveness of aid. If the recipient

worse off from the aid, then aid is rejected.

4- Countries of the South should not rely on foreign aid from the North for ever. They must rely on their internal resources for reducing poverty. Mobilization of internal resources to enhance productive sectors have more lasting effects on the poor than foreign aid. Self-reliance is an essential step for exiting the vicious circle of poverty and the subservience of dependency.

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