Chapter - VII  
Summary and Conclusions

Foreign Aid is considered as an important instrument of the foreign policy of states after the Second World War. The United States involvement on large-scale aid began with the introduction of the Marshall Plan in the 1947, which brought $ 23 billion of US aid into western Europe during 1947 to 1952. The Marshall Plan involved the rehabilitation of modern highly productive societies temporarily damaged by war and thus worked successfully. The confidence in the efficiency of foreign aid was stimulated by the success of the Marshall Plan in achieving a rapid reconstruction of western European economies. There is a controversial debate on the success of foreign aid in third world countries. The traditional economists argued that aid has indeed helped to promote growth and structural transformation in many Less Developed Countries (LDCs). On the other hand in the view of the radical "new left", economists aid is yet another instrument of world monopoly capitalism designed to exploit the countries of the third world. The World Bank and the USAID are regarded as the creation of world monopoly capitalism designed to propagate the capitalist creed in the Third World. These institutions are accused of using aid as a bargaining instrument for obtaining favourable treatment to foreign private investment in the third world countries and for obtaining easy entry for the export of goods and service from the west and for the promotion of economic policies beneficial to the donors of aid. In the words of an Oxford economist, representative of "left wing "critic, Keith Griffin, " If any thing aid may have retarded development by leading to lower domestic savings by distorting the composition of investment and thereby raising the capital-out-put ratio by frustrating the emergence of an indigenous entrepreneurial class and by inhibiting institutional reform". According to Prof. Peter Bauer representative of the right wing school opines that aid is neither a necessary nor a sufficient condition for development. It is not necessary
because several developing countries such as, Hong Kong, Singapore, Malaysia, Thailand, Nigeria and Mexico made rapid progress between last quarter of nineteenth century and the middle of the twentieth century without much aid. Aid is not a sufficient condition for development because many countries which have received substantial aid have made little progress. In the absence of other essential ingredients for development such as human skills, institutions and offers attitudes conducive to progress, aid is likely to be wasted. It encourages mis allocations of resources, weakens domestic savings efforts and allows recipient government to indulge their selfish motive for ostentatious projects.

However it is observed that the above stated views regarding the role of foreign aid may be true in the case of certain countries and may not be so in the case of others. It may, therefore be observed that geographical conditions, the level of socio-economic development, the political policies of the ruling elite, the attitude of the people towards development, and bureaucratic efficiency and level of technological advancement are some of the conditions in which foreign aid has to function. It is needless to say that these factors differ from country to country and, hence, the role and achievement of foreign aid would differ from country to country.

The Chapter Foreign Aid to India is a comprehensive one. It covers the amount of aid flown to India during the planning period and the amount actually utilised. The share of aid in total plan outlay in total investment, plan-wise (1951-1996) was calculated. The ratio of aid to total imports (1974-1996) were calculated. The purpose-wise distribution of foreign aid by the Government to various sectors during the planning era is also incorporated. In the context of developing
countries, the study noted the changing pattern of aid in the form of an increase in the concessional component of aid.

The present study attempts to analyze the impact of aid on the Indian economy. The study covers for the period 1963-94. The availability of the data on all variables required in the study was from 1963 onwards. Data on aid were available plan-wise only from 1950 to 1963. The non-availability of year-wise data prior to 1963 is the reason for the analysis to begin from the year 1963.

The study made use of trend analysis to quantify the growth rates of variables used in the study decade-wise. Secondly, from the above-stated review studies, a few equations were estimated using simple linear regression method in the Indian context for the period, 1963-1994 and are discussed below. Finally, a comparative study for a period, 1980-90, of India, South Korea, and Colombia was done to assess the impact of aid on Economic Growth, Savings, Investment and other variables.

The extent of aid to the third world countries increased tremendously due to the increased need for industrialisation. The combined share of DAC countries and multilateral agencies mainly financed by them increased to 85 per cent in 1986. The non-concessional flows are increased till 1984 then it started declining. In the wake of development, these countries sought for concessional aid rather than non-concessional aid. The lending of the financial resources to low income countries were gradually increased. The disbursements to the middle income countries is more when compared to low income countries. The share of private creditors is more in the case of middle income countries in total disbursements. Both public and private lending goes in large quantity to the middle income countries. The low income country's share in the public as well as private
financing is very low. The technological assistance given to developing countries by ODA increased in 90s. The share of aid by DAC countries declined in recent years due to their budgetary problems. The pattern of aid is also changing in recent times. Many bilateral donors have shifted their aid programme away from loans and 1994 onwards all their ODA in the form grants. One reason for the increasing share of grants has been the raising expenditures reported by DAC members on emergency and humanitarian aid and refugee relief. In the case of India till the annual plan (1966-69), the foreign aid share in the total plan outlay was more. But from 68-69 onwards its share started declining. The share of foreign aid in total investment was high till the annual plans and later it declined. Growth rates in the variables used in the study over a period 1963-64 was found out. This can help in understanding the historical development, the variables which are used in the study viz., gross aid, net aid, GNP, savings, GDCF, exports, population and labour force over a period of time. Then using the data relating to Indian economy, a few of the relationships between aid, savings, growth rates of GNP, Investment were estimated using OLS method for the period 1963 to 1994.

The relationship between GNP and savings are tested and the results shows that savings as a significant impact on GNP. The relationship among GNP, savings and gross aid were tested and the results shows that the coefficient of gross aid is negative though insignificant. The savings coefficient is significant. The impact of savings, gross aid, private investment on GNP also tested. This equation has good R² of 0.96 and the coefficient of gross aid is significant. The relationship among savings, net aid and GNP were tested and here again savings coefficient is significant. The impact of net aid on GNP was positive. The impact of savings, net aid, population on GNP were tested. The goodness of fit for this equation is 0.99. Here also the savings coefficient is insignificant.
Net aid has a negative impact on GNP because it was diverted to less productive channels. The association of savings, net aid, exports on GNP were tested. The $R^2$ for this equation is 0.95. Here savings, net aid, export all contribute positively to the growth of GNP. The net aid has a significant effect on GNP. The impact of savings, gross aid, GDCF on GNP were tested. Here again, savings and gross aid coefficients are significant. The $R^2$ for this equation is 0.97. All the variables, savings, gross aid, net aid, GDCF, Exports, Private investment, Population are used as explanatory variables on GNP. The good of fit is 0.99. But the most of the variables have insignificant coefficients.

The present study also estimated the investment, aid, savings relationship using time series data from 1962 to 1994 in Indian context. The analysis reflects the extent to which an inflow of foreign aid contributes to economic growth. The impact of savings, gross aid on investment is analysed. The saving ratio has significant positive impact on investment ratio and in the case of savings has a significant impact on net aid. The relationship between gross aid and investment ratio has a significant positive impact.

It is a known fact that India was a Britisher’s colony and it got independence in 1947, just like India Korea was Japanese colony and got independence in 1948 and Colombia was Spanish colony and it got independence much prior to India and Korea i.e., 1819. The three countries agricultural dependent countries in the beginning but later, they transformed their economies into industrialised countries. All the three countries opted for foreign aid in order to develop their economies. They were poor in capital during the period of independence. These countries were exporting primary commodities during 1950s.
In India the net inflow of aid peaked during the early 1960s. Gross Domestic Savings rose from around 13 percent of GDP in the early ninety sixties to around 21 percent in the late 1980s. The ratio of Gross aid utilisation to domestic investment has steadily fallen from 11 percent in 1975-76 to only 3.7 percent in 1985-86. India's ability to use aid effectively is much better than that of many countries and has improved considerably over the years. South Korea received large amount of aid in the 1950s and 1960s, which then declined sharply. Its economy has grown rapidly and its domestic savings rose from 6.9 percent of GDP in 1953-55 to 18.7 percent in 1974-76. Its external trade deficit remained roughly constant, at around 9 percent of GDP, while aid's share in financing it fell from 60 percent to 17 percent. The World Bank has been the principal international agency functioning in Colombia since the early 1950s, providing the country with $ 4.6 billion in resources over the past thirty-five years, versus the IDB's $ 2.6 billion, and USAID's $ 1.6 billion for the same period. The aggregate net resource flows in India during 1970 was $ 757 millions in 1992 it was $ 4460 millions. In South Korea the aggregate net resource flows was $ 456 millions in 1970, $ 5899 millions in 1992. In Colombia the aggregate net resource flows was $ 179 millions in 1970 and in 1992 it was $ -78 million.

India adopted import substitution policy during 50s and 60s and it shifted to outward looking strategy in early 90s by liberalising the external sector. Just like India Korea also adopted during 1950-60 and it also used all kinds of restrictive measures to give protection to its industry during this period. During the Park's regime from 1960 South Korea Government shifted to outward-looking strategy. Colombia used to depend upon coffee exports but during early 70s it adopted export outward looking strategy.
During 1980 the total net disbursements of ODA to Colombia was $90 million, 1985 $ 62 million and in 1991 it was $123 million. In the case of Korea the total ODA in 1980 $139 million in 1985 $ -9 million and it was $54 million. Regarding India the total ODA during 1980 $ 2146 millions it reduced during 1985 i.e., $1592 million and started increasing in 1991 i.e., $ 2747 millions. Colombia got major share in ODA next it is India. ODA as a percentage of GDP, Colombia was getting major share of 2.2 pc in 1980 and 1.9% in 1985 , 6.6% in 1991. Whereas the ODA share in GNP is very meager and also in Indian case.

The net flows on long term debt is higher in the case of South Korea and India rather than Colombia i.e., during 1970 the net flows on long term debt in Korea is $271 million increased to $2924 million in 1992. In India the same is $ 594 million in 1970 and rose to $3393 million in 1992. But as seen from the data regarding Colombia the flows is $115 million in 1970 and during 1992 it was $ 808 millions only. Colombia suffered with severe debt problem yet It is the only country which faced this situation among the Latin American countries. That is the reason why Colombia has not opted for more net flows to finance debt. The official grants are more in the case of India rather than South Korea and Colombia. Colombia opted for more net FDI than South Korea. The Govt. of Korea had objection in allowing FDI was due to its reluctance to share the ownership and control of Korean enterprise with foreign, especially Japanese enterprises.

The GDP at constant prices in case of India, South Korea and Colombia during 1970 was 5.8 percent, 8.8 percent and 6.6 percent respectively. During 1995 it increased to 7.3 percent for India, 8.9 percent in South Korea, and 5.4 percent in case of Colombia. The GNP per capita in $ US in case of India, South Korea and Colombia was $ 350,$ 5400 and $1260 respectively. The investment rate in
India, South Korea and Colombia during 1970 was 17.1 percent, 25.4 percent 20.3 percent respectively. In 1995 it was 26.2 percent, 37.1 percent and 22.6 percent respectively. The average annual inflation rate during 1980-90, in case of India was 7.9 percent, South Korea 5.1 percent, Colombia was 24.8 percent.

The net disbursements of official development assistance (as a percentage of GNP) in case of three countries i.e., India, South Korea, Colombia during 1980 was 1.3 percent, 0.2 percent and 2.2 percent respectively. During 1991 it was 1.1 percent for India, zero percent for South Korea and 6.6 percent in case of Colombia. The export of goods and services as a percentage of GDP in 1980 in case of India, South Korea, Colombia was 6.5 percent, 35 percent and 16 percent respectively. During 1995 the export of goods and services as a percentage of GDP in 1980 was 11.2 percent for India, 32.8 percent for South Korea and 17.1 percent for Colombia.

The import of goods and services as a percentage of GDP during 1980 was 9.8 percent for India, 41 percent for South Korea and 16.3 percent for Colombia. During 1995 the same was 13.7 percent for India, 34.2 percent for South Korea and 20.1 percent for Colombia. During 1980, the population in millions with regard to India, South Korea and Colombia were 849.5 millions, 42.8 millions and 32.3 millions respectively.

The share of India's exports and Imports to South Korea and Colombia are also incorporated in this study. Regarding the export share, the South Korea is importing 1.01 percent in 1991 and it increased to 1.39 percent in 1991-92. But during 1992-93 the share of exports to this country started declining. In 1995-96 it again increased 1.36 percent. The share of India's imports from South Korea during 1991 is 1.50 percent, during 1993-94 it is 2.42 percent which increased a
lot, but during 1995-96 it is 2.23 percent. India's share in imports are more than
exports to South Korea. India's exports to Colombia are very negligible. During
1991 Colombia is importing 0.01 percent, it started raising in 1995-96 i.e., 0.06
percent. Colombia exported 0.093 percent in 1990-91 in total India's imports
and during 1994-95 it increased to 0.174 percent, but during 1995-96 it was
0.029 percent.

For comparative study few equations were estimated by using the variables such
as GNP (Y), Savings, aid, private investment, GDCF, Exports and Labour Force.
It reveals that as per the GNP-Saving-Aid relationship is concerned in the
context of India and South Korea and the results are satisfactory in terms of R2
values. But Colombia, the values of R2 and the t-ratios were too low.

In second instance the relationship among GNP, GDCF and Aid were examined
In Korea GDCF has an impact on GNP and high R2 of 0.97, but aid has a
negative impact on GNP. The equations for India seems to be normal and again
for Colombia, there seems to be insignificant relationship between these
variables. Regarding the relationship between GNP, Savings, Aid, and Pvt.
Investment, the results are quite satisfactory in the context of both India and
Korea where as for Colombia, the goodness of fit is poor. The impact of Labour
force reveals an insignificant coefficient for India and Colombia, whereas it has a
significant negative impact in Korea's context.

The comparative study of India, South Korea and Colombia revealed that aid
had a positive impact in India. As far as the South Korea is concerned it
reaffirmed that it developed without much aid. The results of Colombia are not
satisfactory. The Colombian economy used more aid for debt servicing
payments rather than for developmental activities. The South Korean economy
developed very fast due to proper implementation of policies such as adopting outward looking strategies, land reforms and market mechanisms played a very important role in its economic development. India's development is lagging behind due to the inappropriate implementation of policies. The Colombian economy developed due to the exports of Coffee and Cocaine.

Conclusions:

Some of the broad conclusions which emerged from the study are as follows:

1. The share of aid in total plan outlay and investment has been gradually declining in India from Fourth Plan onwards. During the annual plans the share in plan outlay and total investment was 47.48 percent it declined to 19.29 in case of plan outlay and 13.45 pc in case of total investment in India.

2. As far as the aid to developing countries is concerned, the composition of aid is changing from 80s onwards in the form of concessional aid rather than non-concessional aid given on humanitarian grounds. Developing countries are receiving grants instead of loans from DAC countries which is leading to the budgetary problems in DAC countries (donor countries). The share of private creditors is more in the case of middle income countries in total disbursement i.e., in 1975 the share of private creditor to the middle income countries is $ billions 28.2 which increased to $ billions 43.4 in 1986. Regarding the low income countries, the share of private creditors is $ billion 1.6 and 10 in the same years. Both public and private lending goes in large quantity to the middle income countries. The low income country’s share in the public as well as private financing is very low.
3. The South Korean economy has developed faster through effective implementation of Plans and export promotion strategies, stable Government. The dependence of South Korea on aid during recent years was low.

4. Colombia received large quantities of aid among the Latin American countries but it used it for repayment of debt rather than for developmental purpose.

5. The theoretical proposition is that aid will help an increasing output and employment income savings and exports. However, the impact of aid varies depending on its effective utilisation. The precise linkages of aid and its effects (positive as well as negative) are not yet specifically traced both in the cross country as well as country specific studies. Aid helped a lot in the case of India. The Aid in the form of food grains under PL 480 from US came to India to meet domestic shortage. We started basic and key industries in the second five year plan and we got the help from UK, Germany, Russia for our Iron and Steel Plants. The technical aid also helped in our Green revolution programme.

6. The impact of gross and net aid on GNP was estimated with other variables such as savings, exports, private investment, GDCF as explanatory variables. Variance of the same relations are estimated and reported. The overall results are satisfactory tested with the goodness of fit ranging from 0.99 to 0.94. Most of the variables had statistically significant t-ratios.

7. The comparative study of India, South Korea and Colombia revealed that the aid had a positive impact in India. As for as the South Korea is concerned it reaffirmed that it developed without much aid. In the case of Colombia the
aid did not have any significant positive impact on Colombian economic development as the large part of aid has been used for repayment of debt.

On the basis of findings of the present study, the following are suggested

Since a positive correlation between foreign and savings and also between aid and GNP is found in the study measures can be taken to encourage the inflow of foreign aid to promote the savings rate and GNP further in case of India. A positive relationship is found in South Korea also between aid and GNP in 80s. However in case of South Korea, it is also found that the export promotion policies led to high growth rate of exports with larger share of manufacture goods while expansion of employment opportunities in this country. In the light of the experience of South Korea, it is also suggested that India can take necessary steps to promote exports with employment potential. It is also found from the study that in the case of Colombia the aid did not have any significant positive impact on Colombian economic development as the large part of aid has been used for repayment of debt. Therefore, the experience of Colombia shows that the success of aid depends upon how effectively aid is used for productive purposes. However it is suggested that the borrowed aid should be utilised effectively for the productive purposes only for which it is obtained. Then only aid can have a positive effect on economic development.
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