CHAPTER IV
The network of relationships that links together the international economy is both complex and remarkably resilient. Countries of all sizes rely on this network more than they normally care to admit and the flows of trade, people, communications, capital and ideas continue to grow, disrupted only in times of war and disorder. All countries in some degree, rely on their links with the rest of the world; many could not survive and maintain any tolerable living for their growing populations unless they were able to import goods and services and export their own products to pay for such imports.

The concept of a world economy was visualised by classical and pre-classical economists like Adam Smith. This conception, however, was confined to the narrow field of trade; as such, international economic relation was a static one. In contrast, the modern concept of the world
economy is a dynamic and comprehensive one embracing the varied aspects of international economic co-operation aimed at the maximum welfare of the whole mankind.

This study is concerned with changes involving the introduction of a new element into the international economy - flows of goods, services and capital, that take place under the general heading of 'foreign aid'. Foreign aid is a relatively new entrant to the international scene. The gamut of foreign aid after the Second World War became so wide and rather all-pervasive that it was recognised as a distinct international institution with its own procedures and disciplines and leading to the creation of an international development profession. The growth of this concept of foreign aid, that is, flow of goods, services and capital from one country to another, where they were needed for investment to bring about socio-economic transformation, was responsible for the growth of a new dimension of international economic relations. During the Second World War, international relations were based on military purposes. But, since the end of the War, there was a greater thinking towards spectacular economic relations among the countries of the world. Economic freedom of the humanity was considered equally important as political freedom. Thus, an era of world economic co-operation emerged and 'economic aid' tended to play a vital role in this sphere.
The idea of one country granting assistance to another is as old as the history of Nation-States, but such assistance being rendered in a planned and co-ordinated manner has become the salient feature of the post-War international economic relations. The wartime genesis of the modern approach to foreign aid can be seen in the arrangement between the U.S.A. and its allies, known as 'Lend-Lease'. The pattern of post-War aid also used to cover socio-economic purposes of the allies and other needy members of the world community. The establishment of the Development Assistance Committee, (DAC) the U.N.O., the United Nations Conference on Trade and Development (UNCTAD), the Mutual Security Agency, the International Co-operation Administration, Organisation of Economic Co-operation and Development (OECD), Overseas Development Institute, the International Bank for Re-construction and Development, International Monetary Fund, International Development Association, International Finance Corporation and International Development Bank paved the way towards the growth of an atmosphere for international monetary and economic co-operation for the purpose of a balanced international economic growth and world peace. It is thus noted that in adopting the new policy, the U.S.A. simply fell in line with world thinking. However, being the major aid-giving country of the world, the U.S.A.'s new role is of great significance in the growth of the world economy.
We have already stated the idea of Truman's Point Four and the Marshall Plan. Truman's Point Four was of greater significance as it reveals a universal idea of extension of the U.S. economic co-operation for the sustained economic welfare of the free peoples of the world.

To be more clear, we would like to ascertain that economic aid is that part of capital in-flow which normal market incentives do not provide. Private foreign investments are not treated as economic aid; but these elements—foreign economic aid, foreign private investment and collaboration and trade constitute the overall economic relation among the nations of the world; and as such, India and the U.S.A. developed close economic relations through the above processes. Just after India's political emancipation in 1947, it became easy for her to reconcile to the economic assistance and collaboration with the U.S.A. In fact, there have always been arguments and counter arguments regarding the acceptance of foreign aid. Because, the fear of economic dominance is always there. That is why, the world financial institutions such as, the International Bank for Reconstruction and Development, International Monetary Fund, International Development Association, and International Finance Corporation have been established with a view to co-ordinating aid efforts to the less developed countries and at the same time remove the apprehension of foreign domination. In an atmosphere of political libera-
tion and the universal stress on balanced economic growth of the nations, the new pattern of economic relations amongst countries has been really very interesting and worthy of detailed analysis and assessment.

The present system of official aid-flows consists of the following six elements.\textsuperscript{14}

(1) Contributions to International Organisations for development purposes.
(2) Bilateral grants.
(3) Bilateral loans repayable in lenders'currency.
(4) Bilateral loans repayable in borrowers'currency.
(5) Consolidation credits.
(6) Transfer of resources through sales for recipients' currency (as in case of U.S.P.L.480).

The Pearson Commission recommended (Refer Ch XII) greater and closer co-operation by the major donor nations with the World Multilateral Organisations like the World Bank Group, for a co-ordinated and integrated aid effort. The Commission realized that bilateral aid system would hinder freedom of choice, formulation of independent strategy on the part of the recipients due to 'tying of aid'. It strongly advocates the case for multilateralisation of economic aid. The multi-member Consortiums of donors (say, Aid India Consortium) are found to act on this line. The aid relations therefore, have been a subject of comprehensive study, and as such the rationales of foreign aid may be briefly discussed.
There are four fundamental Rationales of foreign development assistance or aid; namely:

(a) Security Rationales,
(b) Economic Rationales,
(c) Political Rationales,
(d) Humanitarian Rationales.

(a) Security Rationales:

Security refers to mutual political and economic security of both the donor and the aided countries. United States programmes right from 'Lend-Lease' to the programmes practised to-day are vitally guided by this rationale. During 1950s the United States Government provided foreign aid principally under the Mutual Security Act, 1951 and justified primarily as a national security measure needed to strengthen allies and to build up low income countries so that they would be less vulnerable to communist invasion or takeover. During 1960s, the long-term security argument for aid remained as a basic rationale and the same would doubtless play a role also in 1970s; but probably would shade off still further from the strictly military connotations towards broadly politico-economic reasons. Robert E. Asher remarks in his book "Development in the Seventies", (PP 22-23) "America wants allies. The less developed countries presumably want the protection and assistance of the
United States, though not necessarily for the same reasons that the United States wants as an ally.*16

The security rationale for development assistance to-day would vary from country to country and in an overall sense would rest on the belief, hope and the faith that (a) the frustration of poverty and bitterness against the richer countries, that such frustration will ultimately be decreased rather than exacerbated by programmes to reduce poverty and sense of insecurity and injustice; (b) better living standards and conditions— a growing stake in the world as it is— together with decrease racial tensions and provide a less fertile breeding ground for demagogues; (c) poor countries will at least in some instances be diverted from the foreign adventures and irrational pursuits; (d) development, though it increases the overall capacities of low income countries including their capacity to intervene elsewhere, improves their power to protect themselves against assault from abroad and subversion at home and should also enhance their long-term interest in machinery for the peaceful adjudication of international disputes.

(b) Economic Rationale:

The economic-rationale of foreign economic assistance is easily understandable. Basically, aid widens the scope of export, provides for productive investment, builds more promising lower cost sources of supply for imports. The
economic rationale for a United States commitment to the development of an underdeveloped country has been widely publicised. Economic assistance promotes production in low income countries and thus increases national product. Several European countries could increase their national product and raise national income after the Second World War with massive aid from the United States of America. A rich country provides better market and improved investment climate than that of a poor one. Japan's foreign trade was amounted to only 2 billion dollars in 1950. By 1960 this amount increased to the tune of 10 billion dollars and in 1967 to 20 billion dollars. Now Japan has been the largest foreign trade partner of the great U.S.A. Japan, Germany, Taiwan, Korea etc. have shown remarkable improvements as a result of U.S. economic assistance since 1950s. With economic growth, less developed countries ought to become more responsible partners with their donors. Seymour Lipset remarks, "More of the conditions favourable to democracy came into being as income increases and is more widely shared". According to Asher, there was no guarantee that economic growth in the low income countries would promote desirable socio-political changes; but it was by no means, certain that self sustaining, self governing and increasingly prosperous peoples would be prepared to live harmoniously with themselves, their neighbours or the U.S.A. Thus the economic rationales can be summarised under the
following heads:

(a) International economic equilibrium can be established by shifting surplus resources of the rich to the poor countries. Foreign economic aid programmes serve this purpose.

(b) Less developed countries with the foreign economic assistance can promote their economies and thrive for a sustained, and self-governing economic growth. Economic stability promotes socio-political strength.

(c) Political Rationale:

Rightly speaking, the concept of foreign economic assistance gets its origin with political principle. It is no denying the fact that the idea of foreign aid in the modern sense of its term originally developed in the United States of America. But, the idea that development assistance should have obvious political pay-off in winning friends is discredited and not dead. Lucian W. Pye\(^{18}\) exclaims, "If we can give substance to the fundamental idea that we once joined with the new countries in a constitutional endeavour to create a world order in which all peoples can find their separate identities, it should be possible for us to achieve that degree of integrity in our relations which will make it possible to avoid hypocrisy and to disagree at times without malice. Acculturation need no longer appear as a process in which some people take on the ways of
others, but instead as one, in which every one is seeking to change and develop in order to build a better world community". Again Arnold Wolters says, "It is one thing to be in good physical or financial condition within orderly and prosperous community, but quite another thing to be privileged by the wealth of one's possessions in surroundings of misery, ill health, lack of public order and widespread resentment".

However, economic policy of any of the modern countries to-day is directly or indirectly based on the political philosophy which that country follows. The United States or any other donor country wants to achieve some political gain by extending aid to the less developed countries. On the contrary the receiving countries get political support in times when they need. Anyway, economic assistance contributes much to economic prosperity of the aid receiving countries and economic prosperity and growth is sine-qua-non for political stability. World peace and harmony cannot persist in a state of political instability in any part of the world. Foreign aid develops friendly political relation between donor and the aided countries. Therefore, political objective of international aid relations cannot be over emphasized. The question of balance of power is also closely related to economic development.
(d) **Humanitarian Rationale**

The kind of inequality that exists between nations, the kind of grinding poverty that permeates so much of the world can no longer be tolerated within the borders of a modern progressive Nation State. It was noted in the Vienna Declaration on Co-operation for Development, July, 1962 that such torments were mitigated within a country like the U.S.A., the U.K. or Sweden by continuous transfers of wealth from the richer to the poorer citizens and from the richer regions to the poorer regions. Foreign aid is an extension of such a process. Blair states that the rationale for attacking poverty is much the same at home and abroad. The rich have an obligation to help the poor. Millikan points out that most Americans share with many people abroad a faith that in the long run, the multi-dimensional human development will greatly increase the prospects for a world environment of more open, more co-operative and more liberated societies. Foreign aid, no doubt, is a politico-economic problem. Yet, it is greatly associated with the human struggle against poverty, hunger, disease and ignorance.

A successful aid-relation between a donor and a recipient country depends on a number of factors:

1. The donor nations should have the spirit of sacrifice and feelings of friendliness, international
brotherhood and co-existence and should act upon with the principle of mutual benefits. Rate of interest for loans should be moderate and terms of repayment should be adequately long.

(2) The foreign capital inflow mobilized by international action be within the limits on the one hand, of technical absorptive capacity and on the other hand, of the capacity to repay of undeveloped countries. While the first limit should preponderantly determine the amount of aid, the second limit should largely determine the method of financing it.

(3) The recipient country should preferably assure the donors of profitable and productive utilization and repatriation of the foreign debt in a reasonable period of time.

(4) Aids require to be untied and should be without any sort of 'string' attached to it. Liberal aid is highly recommended by the Pearson Commission.

(5) There should be no consideration, either political or economic, while allocating aid to a needy country. All concerned should remain alert that under no circumstances bilateral aid might lead or contribute to eventual military involvement. There are instances that aid-relation contributes to international military involvement.

In view of such multiple significances of foreign
economic relations through foreign aid towards a less developed country like India, we find it to be just to have a clear analysis of the genesis of development of Indo-US economic relations since India's independence in 1947, in the following Chapter.

Ref:


*21. Millikan - "The United States and Low Income Countries" (Pp 513 to 519)

   (ii) J. Bhagwati - Foreign Aid (Penguin), 1970,