

**FOREIGN AID, TRADE AND DEVELOPMENT: ANALYSIS OF THE PAST,
PROSPECTS FOR THE FUTURE**

By:

Amos Ben Avny

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APPROVED:

Philip S. Kronenberg, Chair

Eric Chetwynd

Charles T. Goodsell

Ronald Nurse

James F. Wolf

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Blacksburg, Virginia

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Committee Chairman: Philip S. Kronenberg
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(ABSTRACT)

This dissertation addresses U.S. foreign aid as a policy problem and examines new avenues for future aid strategies. Contemporary scholars call for shifting the paradigm of world politics from power to a more economic-oriented policy of "**Cooperative Capitalism.**" They call to base US foreign policy on a system of "**Global Partnership.**" In that vein this study argues that future aid policy should be reshaped and carried out as a comprehensive strategy that incorporates trade and aid activities. Such a policy will meet better American domestic and global interests.

The dissertation examines aid and trade policies, the linkages between them, and their effect on LDCs' economic growth. The inquiry, conducted as a multiple case study, analyzes past and contemporary documentation concerning U.S. aid and foreign trade activities from 1945 to 1990. Two criteria were used for selecting 15 LDCs from Asia and Africa: (1) The volume of aid received during this period, and (2) The value of U.S. exports to, and imports from the LDCs. The research findings indicate that: **a. The amounts of aid delivered** (bilateral or multilateral) **have no clear**

effect on the recipient's economic growth. b. The linkage between trade and economic growth was found important. LDCs that increased significantly the exports of manufactured goods have also increased significantly their GNP p.capita.

c. A decisive competent government and a tradition of diligence and discipline are equally necessary for fostering the economic growth of an LDC; donors' effort do not suffice

These conclusions led to the following recommendations: a. The three forms of aid: humanitarian, military, and economic should be evaluated differently. b. Economic aid should be measured by its effect on the recipient's GNP. c. Economic aid to, and trade with LDCs should be managed as a one integrated strategy, operated through an Aid and Trade Joint Program (ATJP). d. Current operations with each of the relevant LDCs should be carried out by the Bilateral Aid and Trade Committees (BATC). In sum, the dissertation claims that a modified aid policy, intertwined with trade arrangements, is more productive and expedient, and can more effectively satisfy Americans' self-interest while assisting in LDCs' development. In terms of the theoretical debate between the Liberal and the Protectionist (or the Nationalist) views, the study presumes that in the **future U.S. aid and trade policies** will continue to be based on "a **pragmatic mixture of liberal, free-market, and protectionist principles,**" as they were in the past.

ACKNOWLEDGEMENTS

Several years ago I moved to the U.S. from West Africa where I initiated and managed a variety of development projects. My wish to share my African experience with colleagues and specialists resulted in going back to graduate school and completing my doctoral studies with the submission of this dissertation.

For more than twenty five years I was engaged, as an Israeli specialist, in resolving one of the major problems of our times -- the problem of developing less developed people, regions and countries. The theoretical knowledge I have acquired in the Center for Public Administration and Policy (CPAP) of Virginia Tech enriched my intellectual capacity and enhanced my ability as a political economy researcher. However, this additional knowledge has also strengthened my experience-based conviction which emphasizes the key role of the human factor in development. There is enough evidence to show that capital alone, as donations, grants or aid, failed to attain economic growth unless it is accompanied by competent people. I hope that this study will contribute to enhancing the understanding of those who participate in the development business.

In completing this project I feel myself in great debt to my parents, Erna and Haim Avny, who encouraged me to think and learn since the early days of my childhood. A

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Finally, I want to stress that although I was inspired by many important contributors I remain --as William Faulkner said--the "sole owner and proprietor" of the omissions and the errors.

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PART I. THE PURPOSE OF THE STUDY

Chapter One: Structuring the Problem

Introduction

This dissertation treats foreign aid as a policy problem and addresses it from the viewpoint of the donor, especially the United States. The research examines aid and attempts to determine **whether the outcomes of aid policy can satisfy the concerns of the American public**. Thus, the study does not analyze specific assistance missions or designated aid programs -- it studies foreign aid policy as a whole. It examines **the effect of aid (military and non-military) on the economic growth of the top recipients of American aid.**

Contemporary changes in world politics and demands of domestic constituents, as expressed in the 1992 presidential campaign, pose the questions whether foreign aid should be continued and, if so, in what direction? In the past, aid policy was an integral part of foreign affairs and was tightly intertwined with other international undertakings of the United States. During the Cold War, aid policy mostly served as a political instrument for securing American global, political and defense interests. The collapse of the Communist system significantly decreased America's need to seek military allies. This substantive change in world

politics terminated to a great extent the demand for large allocations of "power and money" required for attaining strategic goals (Kindleberger, 1970).¹ Consequently, contemporary scholars call for re-examination of the current principles of international relations (Janos, 1986; Mansbach & Vasquez, 1981). These writers propose shifting the paradigm of world politics from a power-oriented strategy toward a new, more promising policy of prosperity and common wealth, a policy of "Cooperative Capitalism" (Sharp, 1992). Political writers urge America to change its foreign policy in the 1990s and to move toward "Global Partnership" (Carpenter, 1991; Freedman, 1992; Hyland, 1992; Maynes, 1990).

In that vein this researcher believes that America's future foreign aid policy should be reoriented and reformed as it has been reshaped several times in the past. In 1961, when USAID was established, and the United Nations called the wealthy nations to increase their contribution to the Third World, economic aid focused primarily on large scale capital improvement projects in Less Developed Countries (LDCs). Military aid was directed to support American

¹. Recent writers pose three security threats that have become primary concerns of the U.S. after the collapse of the Soviet Union. They are: a) The proliferation of nuclear weapons; b) Attempts by one country to dominate others in its region; and c) Activities of terrorist organizations (CBO, 1994).

global strategic interests. In the early 1970s, US non-military aid strategy was substantially revised. Foreign aid became a vehicle for addressing basic human issues in the LDCs. The major objectives of foreign aid policy in that period were alleviation of poverty, promoting human rights, protecting tropical forests, integrating women into the economies of the LDCs and introducing new technologies to small farms and business (GAO, 1992). Military aid continued to support U.S. allies all over the world. At present, domestic considerations, such as the Federal budget constraints, the large deficit in foreign trade balance and the wish of the Clinton Administration to refocus government policies on domestic economic-oriented policies also generate pressure toward reshaping future foreign aid policy.

It appears, therefore, that future aid policy must shift from a political to a more trade-oriented basis. The momentous role of commerce and trade as a catalyst for economic and social prosperity was also emphasized by the Founding Fathers despite their continuous disputes on many social and political issues. Thus, International trade, in addition to aid, must be considered as another important, parallel and complementary vehicle for fostering economic growth and promoting prosperity of nations (Gilpin, 1987; Krauss, 1983; Samuelson, 1970). And, a modified aid policy

must be intertwined with trade concerns, particularly with import and export considerations. Such collaboration will enable the provision of aid to achieve mutual benefits for the United States and the LDCs.

Analysis of some of the connections between aid and trade and their effect on the development of a group of LDCs forms the subject matter of this study. The research examines the history of these relationships and looks for patterns of influence and linkages among them. Understanding these linkages forms the basis of proposing guidelines for future policy. Although the inquiry resides within the American liberal political economy tradition, the data and the consequent analysis of patterns of behavior are examined in terms of both the Liberal and the Nationalist theories.

The issue under examination in this research is, whether the historic changes which have occurred recently in world politics should affect current practices concerning foreign aid. Common wisdom claims that at present, when global politics is changing and "New World Order," or "Disorder" is constituted, foreign policy and aid should look for new paradigms (Bissell, 1993; Janos, 1986; Mansbach & Vasquez, 1981; Sewell, 1993). This dissertation attempts to identify some principles of the new paradigm, examines their historical origins and their theoretical foundations

and assesses their future potential. Ideas and motives of those who carry out foreign aid policy and who will eventually be asked to adopt the modified policy were incorporated in the study in order to deepen the researcher understanding.

The inquiry begins with collection of numerical data and examining textual documentation regarding the conceptual motivation of aid and trade. Then, it examines the objectives, implementation problems, forms of aid and practices of trade, and their effect on the recipients. Finally, it investigates the outcomes of the policies, how they meet the proclaimed objectives and what conclusions can be drawn and applied for the future.

A. **Foreign Aid and Trade as Policy Problems**

1. **Calls to Reshape American Foreign Policy**

"The guiding force of American policy [in the 1990s] will not be ideology or high principles, but a far greater pragmatism."
(William Hyland, 1992: 45).

With the collapse of the Communist Bloc in 1989, the American victory in the Gulf War in 1990, and the disintegration of the Soviet Union in 1992 came the end to the Cold War. Most of the political patterns which have existed since World War II have lost their legitimation, and the world looks for new political arrangements.

Consequently, contemporary writers urge America to reexamine its foreign policy and offer different perspectives for the coming years.

The status quo is no longer relevant for American foreign policy in the future, notes Charles Maynes. He calls for the opening of a public debate about three new paradigms; "adherence to national interest," "desire to export democracy" and "global partnership" (Maynes, 1990: 25).

American foreign policy in the 1990s should change and be conducted as "Diplomacy by Example" writes Ted Carpenter. Adding that "Instead of embarking on quixotic crusades for global stability or global democracy, the United States should use the end of the Cold War as an opportunity to adopt a less interventionist role" (Carpenter, 1991: 37).

The transition from the Cold War conditions into post-Cold-War political arrangements is a change from "Order" to "Disorder," claims Lawrence Freedman (1992). He argues that, in fact, Bush's new world order will be a "disorder" constructed of "Confused Interests" "Confused Principles" and "Confused Instruments."

The importance of the change in world politics is also addressed by William Hyland, who sees the 1990s as a transition period. He notes that, paradoxically, in the post-Cold-War era the United States will have less freedom

of action than it had in previous decades. In conclusion, Hyland says: "The United States will be required to conduct a foreign policy for which there is almost no historical precedent, and to do so with limited resources in an increasingly competitive world in which the threat that held together the various American alliances will have vanished" (Hyland, 1992:46).

In sum, many contemporary writers agree that American foreign policy in the 1990s must differ from the policy conducted during the Cold War. As a result, foreign aid policy, which is an inseparable part of foreign policy, should also be changed.

2. Contemporary Perceptions on Foreign Aid

"We believe that prosperity fuels the fire of freedom. Our foreign aid is, therefore, not only a symbol of America's tradition of generosity and goodwill, but also a servant of our national interest." --President Reagan (quoted in USAID, 1987).

Shifting the paradigm of world politics from power politics to "Cooperative Capitalism" would eventually mean that America must change its foreign policy in the post Cold-War era. Consequently, foreign aid, as part of US foreign policy, must also be shifted from a power-based to an economics-oriented policy. The inauguration of the Clinton Administration was an adequate opportunity for

development specialists and representatives of voluntary organizations to stress the need to redefine, "revitalizes,"² and even reinvent aid.³ The public debate on aid revolves around the goals, objectives and implementation strategies of America's foreign assistance policy and the organizational setup of the Agency for International Development (USAID). Witnessing part of the discussions conducted in the relevant Senate Subcommittees,⁴ reviewing the Senators' questions and studying the testimonies of more than 50 development experts and organizations, reveals the complexity of the problem. Almost every participant in the hearings, particularly human rights and environment advocates, tends to see its specific objectives as the ones which should direct American foreign assistance policy.

In the past, representatives of the former Third World

². "Steps to Revitalize US Foreign Aid" a position paper prepared in 1993 by "InterAction."

³. "Reinventing Foreign Aid: A White Paper on U.S. Development Cooperation in a New Democratic Era," a paper submitted to President-elect Clinton in December 1992 and prepared by an Independent Group of Development Experts convened by the Overseas Development Council with the support of the Rockefeller Foundation.

⁴. (a) The Subcommittee on International Economic Policy, Trade, Oceans and Environment, of the Senate Committee on Foreign Relations. (b) The Subcommittee on Foreign Operations, Export Financing, and Related Programs of the Senate Committee on Appropriations.

joined Western calls to reshape foreign aid policy.

However, the core of the debate between the donors and the recipients revolves on the size of assistance. As a general rule, it was agreed that developed nations should allocate 0.7% of their GNP as assistance to LDCs.⁵

Some perceive foreign aid as a political instrument, which should be evaluated accordingly (Kindleberger, 1970: 133). But aid cannot be seen as a political issue per se, since it encompasses many economic elements, intertwined with and influenced by political concerns. Regarding foreign aid either as a purely political issue or as an exclusively economic or social obligation is erroneous (Kindleberger, 1970: 15), or at least, incomplete (Gilpin, 1987: 269). As a complex public policy problem, foreign aid should be studied by using a comprehensive political economy approach. This perspective provides better understanding of the extent of the relationships and the strength of the linkages among the political and economic components of any given policy (Gilpin, 1987: 263-303).

⁵. A European "Commission on International Development" chaired by Willy Brandt, a former chancellor of Germany, studied international aid problems in the 1970s and 1980s and published its findings in the influential "Brandt Report." The commission set the target of 0.7 per cent of the GNP, as the proper share of aid to be given by the wealthy countries (Brandt, 1980; Hancock, 1989; Jamal, 1980; Nyerere 1982).

3. Trade as a Catalyst of Development

International trade considerations are an additional facet of foreign policy. The basic assumption of the classical political economy school is that augmentation of international trade increases the wealth of nations (Gilpin, 1987; Krauss, 1983; Samuelson, 1970). But, accelerating economic growth is also one of the major goals of economic aid policy. Thus, combining the development effects of aid and trade policies may bear the most promising rewards for both the U.S. and the LDCs. It is logical to assume, therefore, that aid policy that is designed to expand international trade, eventually increases the global demand for American goods and by so doing it contributes to the well-being of the American people.

4. The Politics of Foreign Aid

American foreign aid is a policy problem relevant to many stakeholders. Naturally, it is important to the recipients, traditionally the less developed nations and now also, the Eastern European countries and the Newly Independent States (NIS). An influx of foreign capital, and aid as part of it, into those countries poses additional problems to the economic, social and political confusion prevails in many of those nations (Collins, 1994; McConnell, 1993, 1994). A substantive amount of foreign aid affects the relationships between the public and private

sectors, between the military and civilian establishments and between the ruling elites and the common people. Small amounts of aid, even when they have only marginal effect on the economy, are less seductive but, have also a little effect on the economy.

Providing foreign aid is, of course, relevant to the donors; the common tax payer, a variety of Non-Governmental Organizations (NGOs), Congress, and the departments of government. It is of particular concern to the Department of State and the Agency for International Development, AID. Aid strategy, like other public policies, emerge from an on-going political process which consists of continuous negotiations among participants and interest groups. American political experience indicates that success or failure of either domestic or foreign policy depends on the ability of policy-makers to meet the primary interests of their constituents. Policies that meet this requirement have a better chance to be maintained and to succeed. The 1992 election results indicate that domestic affairs are the primary concern of the American people and their delegates (Senator Leahy, 1993). Foreign aid policy, therefore, cannot be separated from these concerns, it must be carried out in congruence with the demands of domestic affairs and

be evaluated accordingly.⁶ As part of the American political economy complex, foreign aid policy must be examined by using inquiry methods that study the interactions between politics and economics and examine the relations between domestic and international affairs (Kindleberger, 1970: 9-16).

B. The Framework of the Dissertation

This dissertation follows the significant changes of world politics in the 1990s which resulted in positioning America as the only remaining superpower. Because of this unique status the United States is expected to fulfill differently its roles and responsibilities on the global arena. Thus, it appears, that foreign aid also, as an integral part of foreign policy, is going to be modified. **How to reshape foreign aid and in what direction to guide it in the future**, is the subject matter of this study, which includes:

(a) **A historical exploration of:**

- (i) U.S. foreign aid policy;
- (ii) **Trade** practices with major LDCs;
- (iii) The **linkages** between aid and trade policies;
- (iv) The **effect** of aid and trade on the **economic growth** of LDCs.

(b) **A proposition of guidelines for modifying aid and trade policies in the future.**

⁶. Representative Lee Hamilton (1993), Chairman of the House Committee on Foreign Affairs, in a statement dated June 1993, emphasized the need to enact a policy that satisfies the concerns of domestic and foreign interests.

1. The Design of the Study

Aid, trade, and development problems are relevant to some 150 countries and many international institutions. A selection of these countries for a multiple case study provides an appropriate framework for enabling some general conclusions to be drawn about the aid process. The data and the patterns of behavior of the selected LDCs are examined against two alternative conceptual perspectives: the Liberal and the Nationalist theories. This historical examination of the aid process and its linkage with trade, anchored in the study of specific cases, provides directions and perhaps some principles for guiding a reformed foreign aid policy.

2. The Argument of the Dissertation

An historical investigation of the aid and trade processes dictates the examination of several conventional understandings, that are detailed below:

- (1) The provision of **large** amounts of American aid, both military and non-military assistance, over a **long** period, was **neither the only, nor the best strategy** for accelerating **economic growth** of the recipients.
- (2) American aid policy was an **effective** factor in increasing the GNP per capita of LDCs when it **promoted** the development of an **export-oriented economy**.
- (3) An export-oriented economy, including the **export** of **manufactured goods** in particular, was developed when **additional requirements**, other than aid, were met:
 - (a) The recipient **government** was determined and able to set economic growth as one of the **primary goals** of the national economy.

(b) The national **economy** of the recipient was geared toward **expanding exports of manufactured goods** rather than protecting import-substituting industries.

(c) Modern physical, cultural, and social infrastructures were established for assimilating and utilizing both **capital** and **know-how**, so crucial for producing and exporting manufactured goods.

(d) Effective programs of **controlling population growth** were imposed and run by the recipient government.

- (4) An LDC which is in the process of becoming an **exporter of manufactures** to the U.S., further, has an enhanced potential to become a **growing market** for American exports and a better trade partner of the U.S.
- (5) **Bilateral trade agreements** fulfill **two major roles** in the process of establishing partnership and balancing trade revenues between the U.S. and an LDC. The first role, which often comes first in time, enables them to grant exceptional treatment and additional **temporary support to LDCs** of special interest for the U.S. The second role, which appears afterward, when an LDC become a significant exporter to the U.S., forces the bilateral trade negotiators to establish a reliable mechanism necessary for **preventing the creation of a deficit in U.S. trade balance**.

3. The limitations of the research

The first limitation of the study stems from the necessity to foresee developments in an uncertain future. This reality forces the researcher to make the following presumptions:

- * The United States will not ignore its key role as the world leader in spite of all the domestic hardships.
- * U.S. foreign policy in the post-Cold-War era will focus more on political-economic problems rather than defense issues, owing to the diminishing prospects of global war.

- * Foreign aid will continue to be one of the primary instruments for promoting U.S. interests in the world.
- * Foreign aid, trade arrangements, and economic growth of the old and the new LDCs are among the major global issues which will demand American involvement.
- * Self-interest will play as major a role in the future as it played in the past in justifying foreign aid policy, owing to the traditional and the contemporary influence of domestic affairs on the American political decision-making process.

The second limitation results from the fact that changes in the GNP per capita are influenced by many determinants other than aid and trade which are examined here. This problem is ameliorated some what by using qualitative assessment for identifying the influence of some of the other contributions to change in GNP per capita.

4. The Research Questions

This dissertation examines of the history of foreign aid and the effect of the underlying policy on trade relations between the United States and aid recipients. In the course of this examination, the dissertation focuses on some principal questions which form the core of the research.

- (1) What are the **attributes that characterize American aid and trade policies** and the interactions between them?
- (2) What were the **effects, if any, of aid and trade policies on the LDCs' GNP per capita?**
- (3) What were the **other major determinants** that affect the development of the LDCs?

- (4) **How to apply operational conclusions, drawn from the historical examination, to future activities.**

Understanding the answers to these questions through an historical examination of aid and trade policies and their effect, can provide guidelines for future directions for a modified foreign aid policy.

C. Contribution to the Literature of Public Policy.

The 1990s are perceived by scholars as years of "disorder," "Transition" and "Confusion" (Carpenter, 1991; Freedman, 1992; Hyland, 1992). Politicians (Nixon, 1992) see these years as a period of historical opportunity. Traditional theories of International Relations and famous scholars of Public Policy (Kaplan, 1975; Rosenau, 1976) could not foresee such a significant change, and therefore, did not offer a conceptual framework for understanding it. Thus, any additional study that provides theoretical grounding for these incredible global developments would be helpful for reshaping foreign policy and specifically aid policy.

The proposed study of foreign aid in the post-Cold-War era would add new aspects to the current knowledge about donor-recipient relationships. By analyzing these relationships in a new multi-polar world with diminished competition between the former two superpowers, the

researcher will be better able to assess the net effects of foreign aid policy. Reexamining basic principles of foreign aid will assist in the establishment of theoretical foundations for a modified American policy in a "Confused" "New World Order" in which "Diplomacy by Example" is recommended as a practical guideline. In this way, I hope that my research project enhances the understanding of novel principles of international relations and assists in the creation of a new paradigm of "global cooperation" and "cooperative capitalism." By so doing, it contributes to the literature of Public Policy.

In the next part, Part II of this Dissertation, the relevant literature is reviewed, two pertinent political-economy theories are discussed, and the application of these theories to the actual developments in the international arena is examined. Further, the inquiry method and the major propositions of the research are outlined.

PART II. THE THEORETICAL FRAMEWORK

The second part of the Dissertation, which contains Chapters Two, Three, and Four, delineates the conceptual framework of the research. Chapter Two discusses two competing political economy approaches: the Liberal and the Nationalist theories. These theories are explored as guiding principles against which the research findings are examined and by which foreign aid, and trade policies would be directed. Chapter Three explores the application of the Liberal and the Nationalist Theories to the political reality of the past forty years (1950-1990). Chapter Four discusses the methodological aspects of the research and analyzes the multiple-case study as an appropriate inquiry method for this project.

Chapter Two: The Theoretical Debate and the Competing Ideologies

A. Political Economy as a Method of Inquiry

Foreign aid was initially perceived as a political instrument (Kindleberger 1970: 133) and was evaluated in such terms. But, because the implementation of aid policy affects many domains of the recipient, aid must be evaluated in a more comprehensive manner. Strategies of aid and trade, like other policy matters, encompass economic as well as political elements. Examining these issues either as an

exclusively political problem or as a normative economic or social obligation is erroneous (Kindleberger, 1970: 15) or, at least, incomplete (Gilpin, 1987: 269).

Since foreign aid and trade are influenced by political and economic considerations they should be examined within the political economy context of international relations. Political economy theories are particularly helpful because they emphasize the interactions between politics and economics and examine the relations between domestic and international affairs (Gilpin, 1987: 263-303; Kindleberger 1970: 9-16). Aid and trade issues comprise "state" and "market" concerns, and are influenced by national desires, regional limitations and international considerations. Using political economy "lenses" for identifying the features and the behavior of the "state" and the "market" enables us to achieve a more comprehensive knowledge of their effect on aid and trade.

Political economy specifically focuses on the interactions between the structures of human society and its economic foundation. Political science, on the one hand, studies the "state" segment, that is, the social structures that emerge from traditional, cultural, behavioral and political processes. Economics, on the other hand, is concerned with the "market" segment, that is, the study of the "process of production," the inputs and outputs required

for this process, and the distribution of goods among consumers in the national or international market-place. These two fundamentally different, yet interrelated aspects of human concerns have been epitomized in the literature as the striving for "power and money" (Kindleberger, 1970) or "the pursuit of wealth and the pursuit of power" (Gilpin, 1975).

A more sophisticated explanation on the two organizing principles, which have a tremendous influence on individuals and societies is provided by the analysis of the relationship between the "state" and the "market" (Gilpin, 1987). These two powerful elements, the "market" and the "state," often act in opposite directions. Whereas the "market" drives to locate economic activities where they can maximize productivity and profitability; the "state" equally strives to locate economic activities where government can maximize its political control upon them (Heilbroner, 1985). The concerns of the state, therefore, often contradict the requirements of the market. The logic of the state stems from "the concepts of territoriality, loyalty, and exclusivity... On the other hand, the market is based on the concepts of functional integration, contractual relationships and expanding interdependence of buyers and sellers" (Gilpin, 1987: 10-11). Whereas societies turn to the market to provide wealth and prosperity, they demand

that the state ensures a secure life by enforcing law and order. Consequently, tension appears in the linkages between these two segments of social life, segments that emerge from fundamentally different desires that act jointly and separately at the same time.

The proponents of the market ideology claim that by letting the market steer the economy and releasing it from the control of the state, better results will be gained and more social wealth will be generated (Buchanan and Tollison, 1972, 1984). In contrast, the proponents of greater state involvement in the economy claim that (a) there are services, or public goods, which are better provided by the state (Olson, 1965), and (b) that many "market failures" can be rectified only by state intervention (Baumol, 1965).

The tension between the "state" and the "market" perspectives undergirds many social ideologies, political doctrines and economic theories. One extreme ideology, Reaganomics,¹ for example, imagines a social order steered by the market and administered by a small government, minimally involved in the economy. The limits of this ideology were demonstrated by the recession in the late 1980s. America's social problems have not been solved by

¹. Reaganomics, named after President Reagan, is the political economy ideology which endorses minimal government engagement and maximum reliance on market forces for regulating national economy matters.

the "market" alone, without government help. The extreme opposite position, which advocates a big government, maximally involved in directing the economy, in which it leaves very little room for free market considerations, was adopted by the Communist regimes and other dictatorships. At present, with the introduction of free market principles into many of the former centrally commanded economies, it seems that the extreme nationalist approach does not have satisfactory suggestions to improve national economies.

The debate between the political (the state) and economic (the market) perspectives pertains also to the international arena. Contemporary technology promotes global division of labor and international specialization. Modern global conditions encourage foreign aid, augment international trade which, in practice, fosters economic interdependence among nations. In the international arena, the cardinal dispute between the state and the market perspectives becomes a debate between the proponents of free international trade and advocates of a more protectionist approach, which attempts to maintain more control by the state over its international activities. The international "state-market" conflict evokes a general question about motives for national behavior: What are the forces which drive interactions (such as aid and trade) among nations? Do they spring from the economic desire to acquire wealth

and promote harmony, or are they political aspirations to gain power and leadership, which cause conflicts? Within the general debate, this dissertation is specifically concerned with the question of what kind of aid or trade policies, better satisfy the interests of the donor and the recipient? Answers to this question will emerge from the findings of the research.

After discussing political economy as a general approach, an analysis of two major political economy ideologies - the Liberal and the Nationalist - is delineated in the next section.

B. Political Economy Ideologies

This research focuses on two major non-Marxist political-economy ideologies which address international relations: the Liberal perspective and the Nationalist or Mercantilist perspective.² These two ideologies diverge in their views of the impacts that the state and the market have on social life and international relations. The dissertation employs these two perspectives for the analysis of past policies and recommendation of future aid and trade strategies.

². Marxism, one of the most comprehensive political economy ideologies, is not discussed here because it is considered beyond the scope of this dissertation.

1. The Liberal Perspective

From the end of World War II to the end of the Cold War several theories were developed to explain the problem of poor and wealthy nations, the relations between the North and the South, and the prospects for accelerating LDCs' economic growth. The Liberal perspective, based on a common set of values which have guided its proponents, from the time of Adam Smith to the present day, is concerned with both political and economic affairs (Gilpin, 1987; Lindblom, 1977). Liberal economic theory is committed to a free market and limited government intervention in the economy. Liberal political theory is committed to individual rights, liberty and equality. Thus, a Liberal Political Economy perspective goes with an ideology which is committed to a democratic regime that promotes a free market economy.³

Within this ideology, there are several schools of thought that differ mainly in their ideas on the size and the extent of governmental involvement in the economy. However, all the liberal schools emphasize commitment to the market and the price mechanism as the most efficacious means for organizing domestic and international economic relations and

³. The linkage between democracy and free-market principles is understandable in the West. But, there are some nations in South East Asia for example, that tolerate semi-democratic regime that endorses only few of these principles.

maximizing economic growth, thereby improving human welfare.

Economic liberalism may be defined as "a doctrine and a set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth and individual welfare" (Gilpin, 1987: 27). Liberal economists believe, therefore, that this natural and impartial character enables the market to meet human wants better, with minimal external intervention.⁴ Following these beliefs, liberals propose that governments should intervene in the economy for only two reasons: that the market system has failed (Baumol, 1965) or in order to provide public or collective goods (Olson, 1965). These two supposedly insignificant situations (failure of the market and demand for public goods) became pivotal points in the continuous discourse about the extent of government intervention. A market economy is governed principally by two basic forces, supply and demand.⁵ Traditional liberals assume that over the long term, a market economy tends to

⁴. Liberal economists unwillingly concur with Marx when they assume that (1) human beings are by nature economic creatures and (2) that markets arise naturally to satisfy basic human needs.

⁵. The demand assumption holds that the demand for a good grows as its price decreases and shrinks as the price increases. The supply assumption holds that the scarcity (or limited availability) of resources compels individuals to set priorities and to choose among available possibilities.

reach an equilibrium between supply and demand that meets the interests of all the participants: producers, and consumers (Samuelson, 1970). Thus, traditional liberals believe that under a free market economy society as a whole will be more wealthy, and individuals in that society will be rewarded in accordance with their marginal productivity and relative contribution to the general wealth (Gilpin, 1987: 30).⁶ The growing influence of the supply side economy, and the flourishing of the theory of public choice (Buchanan and Tollison, 1972, 1984) caused the contradiction between competition and equality to become a rivalry that requires political actions to resolve it.⁷

Liberal economists believe that economic interactions among countries, exercised through trade and aid, lead to a harmonious co-existence of nations which benefit from expanding cooperation, interdependence and prosperity. In turn, national prosperity affects international economic

⁶. The proponents of both demand and supply side economics failed to emphasize sufficiently the impact of competition as the most significant characteristic of the free market economy. Free market economists perceived competition as the positive drive that stimulates individuals and nations to produce and achieve more goods and services.

⁷. Perhaps more importantly, economists, who warmly advocate competition as the driving force of the economy are not always aware of the magnitude of the conflict between competition and equality as economic, social or political issues.

relations and has a moderating influence on global politics by creating bonds of shared interests. Despite the common interest of the participants in international economic activities and the understanding that benefits are obtained by all trading nations, some scholars and practitioners are not satisfied with the solutions that the market economy has offered to the issue of relative gains of each participant and the problem of international distribution of wealth.

2. The Nationalist (Mercantilist, Protectionist) Perspective

The Nationalist school of thought traces its origins to the 18th century.⁸ It gained renewed momentum in the 1960s and 1970s with the emergence of newly independent nations and, particularly, with the rapid industrialization of Japan and other East Asian countries. The Nationalist perspective promotes the idea that economic activities are and should be subordinated to the interest of the state and the building of the national economy. This school, sometimes called **mercantilism**, or **protectionism**, claims that wealth and power are two complementary goals, legitimately pursued by national and international entities. An often quoted passage summarizes this approach as follows:

⁸. In the 1930s and 1940s it was adopted by the National Socialism ideology that sustained the Nazis' and the Fascists' regimes in Europe.

"all mercantilists...would have subscribed to all of the following propositions: (i) wealth is an absolutely essential means to power, whether for security or for aggression; (ii) power is essential or valuable as a means to the acquisition or retention of wealth; (iii) wealth and power are each proper ultimate ends of national policy" (Viner, 1958).

Mercantilist ideas were intertwined through many of the Federalist writings and they became an important justification for reforming the political system of the United States in the eighteenth century. Alexander Hamilton's words were illustrative: "not only the wealth but the independence and security of a country appear to be materially connected to the prosperity of manufacturers" (quoted in Rostow, 1971 and Gilpin, 1987: 33).⁹ Thus, the claim that weak and young economies (such as the U.S. in the 19th century, or Japan after World War II), are entitled to seek state assistance (or protectionism) was legitimate in the past and is still relevant at present.¹⁰ Once the "prosperity of manufacturers" became a national goal it

⁹. Some writers distinguish between Hamilton's "Benign" mercantilism which is right and deserves support, and "Malevolent" mercantilism that nurtured the Nazi movement and should be condemned (Gilpin, 1975, 1987; Hirschman, 1969; List, 1904). We regard both nationalism and mercantilism as policies that varies on a continuum from little to high involvement of government in the economy.

¹⁰. The recent discourse among the U.S., Japan and the Asian Newly Industrialized Countries (NICs), on trade policy, renews the debate about the legitimacy of the nationalist or protectionist policy in international relations.

justified harnessing official or state measures to promote and endorse it. Another aspect of the nationalists' practice of protecting indigenous industries sheds light on the role of industrialization in the process of national development.¹¹ Industrialization (or electrification in Lenin's words) was perceived as a crucial prerequisite for economic growth (Sen, 1984). Many governments tend, therefore, to initiate and build indigenous industries while protecting them from the market requirement of maximizing efficiency and profitability through international division of labor. The governments of LDCs believed in the past that market economy causes the concentration of wealth and power in the hands of the most capable, wealthiest and already powerful nations rather than the less developed ones. Free market competition rewards individuals and nations unevenly, according to their marginal productivity. In addition, these free-market activities cause interdependence among more- and less-developed nations. The commercial relationships that enhance interdependence are perceived by the nationalists not as trade activities but, rather, as power relations and a pattern of domination by strong

¹¹. Industrialization seems to be so important because (a) industry affects other parts of the economy and leads to overall development; (b) industry is a key factor for establishing a self-sufficient economy and thus achieving political autonomy and (c) industry is the basis of military power and so is central to national security (Gilpin, 1987).

industrialized nations over the weak and less developed countries (Prebisch, 1967). Against this interdependence, based on power and domination, a defensive economic concept ("Benign Mercantilism," Protectionism) was developed. This form of nationalist policy fosters the protection of weak economies against "modern imperialism." It called to protect LDCs against the intervention and influence of external economic and political powers.¹² Nationalists, therefore, respond negatively to the question posed at the beginning of this chapter, about the effects of aid and trade relations. They argue that aid and trade relations foster the interests of rich countries and, in essence, take advantage of the poor.

After discussing the theoretical grounds of the political economy discourse we proceed to Chapter Three to explore its influence on the politics of aid during the Cold War.

¹². A derivative of the protectionist ideology, also called "dependency theory" (Prebisch, 1967), calls for cutting the interdependence between the industrialized and the non-industrialized nations. It advocates breaking the old economic linkages between the more- and the less-developed countries and denies the natural tendency of the market to increase the wealth of all nations.

Chapter Three: The Politics of Foreign Aid during the Cold War: Applying Theories to the Political Reality

Introduction

In this chapter, I review how the Liberal Perspective and the Nationalist Perspective, discussed in the previous chapter, affected aid and trade strategies and what was their impact on the relationships between developed and less developed countries during the Cold War. The exploration of the conceptual principles which led aid policy since the early days of American aid, in the aftermath of World War II, helps us understand contemporary aid policy, its relations with international trade and its effect on LDCs. Similarly, it helps to understand the theoretical argument for moving from donor-recipient relationships toward interactions based on trade partnerships and common interest. Although several political economy theories evolved and generated support during four decades of Cold-War, only two perspectives are discussed in this study. Perspectives which fundamentally reflect the differing viewpoints of the donor and the recipient. The traditional Liberal Philosophy which reflects donors' perspective and the Nationalist, or Mercantilism ideologies which basically reflect the viewpoint of the recipients. Advocates of the LDCs' perspective sometimes import ideas from Structuralism

and Marxism for promoting their arguments.¹ The review of the Cold War period is divided into four decades, each of which is characterized by a shift in the goals of the development policy.

A. The Post-World-War II Period: A Decade of Hope, 1947-1960.

Resulting from the inception of the Cold War and the beginning of the decolonization process, most aid activities have been initiated as bilateral assistance programs provided either by the United States to its allies, or by the United Kingdom and France to their former colonies (Wood, 1986: 69). During this period, many former European colonies attained their primary national goal of achieving political independence, but the basic economic issues of the LDCs remained unsolved. The result was a vacuum in economic

¹. Structuralism - a school of economic thought that argues that Capitalism tends to preserve the disadvantage of poor nations by keeping them trapped within their unfortunate conditions. These socio-economic structures include the combination of dense population and subsistence agriculture, rising expectations, low savings, dependence on unstable commodities exports etc.

The Structuralist perspective, focused on the structural conditions prevailing in LDCs, joined the Nationalist approach in creating of the Modern World-System (MWS) perspective and the Dependency theory. The MWS perspective which incorporates some Marxist assumptions (primacy of economic concerns, class struggle and the evils of capitalist imperialism) sees the modern world as a whole system. It is "a unit with single division of labor and multiple cultural systems." Within this world system the industrialist capitalist nations promote their interests and strive to maintain their control of the world.

responsibilities (Sen, 1969).

Scholars of all schools began to explore theoretical grounds for conceptualizing the process of accelerating the development of the newly created independent nations. Attention was devoted primarily to the question of how to overcome the poverty of the LDCs as rapidly as possible. In the 1950s the development of LDCs was perceived mainly as an economic issue and particularly as a problem of economic growth (Caiden & Wildavsky 1985: 2). These approaches were significantly influenced by the positive results achieved by American aid to Europe in the aftermath of World War II.

Paul Hoffman, who administered the Marshall Plan of providing aid to Western Europe in this period, expressed well this perception:

"We have learned in Europe what to do in Asia, for under the Marshall Plan, we have developed the essential instruments of a successful policy in the arena of world politics" (quoted in Wood, 1986: 1).

Kindleberger, however, noted that this Europe-oriented approach became a haven for future misconceptions.² Based on the success of the Marshall Plan, several liberal concepts of development and aid were proposed. Most of the

². "The brilliant success of the Marshall Plan in reconstructing the European economy by just providing capital led to an overemphasis on capital formation and an initial neglect of the roles of a skilled labor force, good management, and experience of having done it before" (1970: 147).

Liberal proposals resided within the framework of Keynesian theory, which taught that the economy could be controlled and stimulated by the government's fiscal and monetary policies (Singer, 1964: 3-18). A model of economic growth, the Harrod-Domar Model (Harrod, 1948, 1959 and Domar, 1957) was proposed as a method to be adopted by LDCs. This model claims that savings are converted into investments that increase domestic production and thus result in economic growth. The theory further claims that the economic growth of poor countries requires a capital influx from abroad. The influx of foreign capital, through either loans or grants, serves to assist in generating savings and investments. In the early 1950s, Western Europe and Japan suffered from a shortage of investment capital because of the war. A similar shortage of investment capital became in the late 1950s a significant problem for the LDCs because of their poverty. Following the European experience, development specialists claimed that what LDCs need most is an influx of foreign capital. They argued that this type of economic assistance was required to ensure productive investment, which cannot be sufficiently financed otherwise, due to little surplus production over current consumption. The Harrod-Domar Model thus became one of the first theoretical justifications for the policy of providing economic aid to LDCs in the 1950s. The concept of receiving

external assistance in the form of capital influx was also attractive to the LDCs. While enjoying their independence, many LDCs' leaders adopted the Nationalistic economic ideology which encourages a self-contained economy resting on an import-substitute industry.

Unfortunately, the Harrod-Domar Model of economic growth did not fit the actual development process of the LDCs. It became more and more obvious that the development of poor countries is a complicated process, which encompasses much more than merely financial or economic factors. In the LDCs, the behavior of the three elements of the Harrod-Domar Model, savings, investment and economic growth, did not follow the prediction of the economists. The nature of the economies of underdeveloped countries affects the three elements of the Harrod-Domar Model differently: (1) savings are very small, owing to a rapid population increase; (2) savings are not automatically converted into productive investments, instead they nurture demonstrative consumption; (3) the domestic market is too poor and small for stimulating investment in indigenous industries. Thus, only minuscule increases in production and very little economic growth were achieved (Hagen, 1968; Hirschman, 1961; Sen, 1969).

The disappointing results of the European-based theory of development yielded two approaches. One was Gunnar

Myrdal's postulate about the structural distinction between the more and the less developed countries. Myrdal (1957) claims that underdeveloped economies are forced to operate within a series of vicious circles owing to fast-growing populations and lack of available resources. Thus, the structural constraints of poor countries could never be overcome without significant aid from abroad. This argument was taken further by Nurkse's (1953) theory of "balanced growth." Nurkse called for the breaking of the poor countries' vicious circle (structure) by a simultaneous advance on a broad front, which would create demand, increase income and stimulate the economy. Nurkse's approach, later known as the "structuralist" perspective, focused on the structural conditions prevailing in LDCs, and attempted to represent their point of view.

A different approach became known as W.W. Rostow's "Takeoff Theory." Rostow (1960) argued that enormous economic resources were needed to initiate growth in the early stages of development. Only a large amount of economic aid in the beginning would bring underdeveloped countries to a "takeoff point" from which they would then be able to proceed successfully toward a self-sustaining economic growth.

In spite of sincere efforts made by economists and statesmen, aid policy during the early 1960s did not meet

the expectation of either donors or recipients (Sen, 1969). Strategies that had been proposed and successfully executed in the rehabilitation of Western Europe failed in most of the newly established nations. The LDCs, their advocates and delegates, faced disappointment and experienced frustration. Some of the LDCs' leaders realized that blaming the former colonial powers would not help them to solve their current problems, and that their expectations to experience a better life after independence has a very little chance to be achieved. These feelings, known as the "revolution of rising expectations," have deepened as the gap between high expectations and poor accomplishments grew. The three central questions of: What is aid? How to allocate it? and To whom should it be delivered? remained unsolved.

B. The First "United Nation Development Decade," 1961-1970.

A growing participation of international institutions in aid programs and the "emergence of new forms of multilateralism" characterize this decade. Although bilateral aid remained the largest single form of assistance throughout the 1960s, its share of total foreign aid declined from 54% in 1960 to 38% in 1970. At the same time, The United Nations, the World Bank, and their affiliates more than doubled their financing, from 8% in 1960 to 18% in 1970; the rest was provided by private banks and other

creditors (Wood, 1986:68-93).

Shortly after assuming power, the Kennedy administration joined international calls for renewed development efforts. President Kennedy reorganized American foreign assistance and directed it through the newly established US Agency for International Development (USAID). USAID was designed to improve foreign aid practices, by centralizing goal setting and executing aid activities under one umbrella organization.

Inspired by President Kennedy's (1961) call to enhance global cooperation and the international desire to correct the failures of development practices of the 1950s, the United Nations designated the 1960s as the "Development Decade." The official objective of this policy was to direct maximum international effort toward poor countries. The desired economic target of the first development decade was the achievement of at least 5% annual growth of GNP per capita for most of the LDCs.³ The UN assumed this duty at that time because it enjoyed greater acceptability than the members of either the Western or the Communist bloc. But, as Sudhir Sen, who was a development director of the UN for

³. The United Nations undertook the mission of promoting international development because it was the logical candidate to fill the vacuum of economic responsibility which had resulted from the decolonization process.

15 years, concludes, in spite of UN aspiration to be "a significant factor in the field of international development," unfortunately, "it has not been able to make any real impact" and "the progress the LDCs made under UN auspices has been fitful and painfully slow" (Sen, 1967: 1-8).

As part of the UN effort to accelerate development it gathered the first United Nations Conference on Trade and Development UNCTAD, which focused on bilateral and multilateral trade and aid arrangements.⁴ The UNCTAD represented a turning point in relations between the developed and the less-developed nations (Johnson 1967: vii). Since the majority of the participants in the conference were Third World nations, the resolutions of UNCTAD, its "Final Act" reflected their interest and their perspective. UNCTAD's "Final Act" addressed the questions of what is aid? how to allocate it? and to whom? by declaring that Development through Trade is superior to Development through Aid. UNCTAD claimed further that international trade arrangements (such as production quotas and minimum price systems) were the best instruments to control and monitor the flow of goods and monies between the

⁴. The international conference, attended by more than 2000 delegates from 120 nations, gathered in Geneva for three months in 1964.

developed and the less-developed nations and among the LDCs themselves. Although many of the Final Act conclusions were in consonance with the liberal theory, they failed to promote free international trade because they introduced politics into the world market consideration. In practice, they have been "considerably watered down," owing to under-the-table political arrangements, so common in world affairs, and eventually caused the UNCTAD's recommendations to fail (Johnson, 1967: 37-39).

The UNCTAD was one of the early experiments of the UN, in use of the majority power of the LDCs as a political lever to achieve economic gains. Nevertheless, the practical relations between donors and recipients, of which the improvement formed the salient and meritorious objectives of UNCTAD, remained bilateral. Wood (1986) points out that in the "aid regime" an "imbalance of power" exists between donors and recipients and, therefore, LDCs have "virtually no means of challenging the distribution or the nature of aid overall" (pp. 94-114).

The failure of UNCTAD to achieve significant economic concessions for Third World nations through political actions is an early indication of the assertion of this dissertation. It is our belief that development and prosperity for the LDCs can be achieved better by combining political and economic efforts. Neither politics nor

economics alone suffices to provide a satisfactory solution to such an enormous challenge. Association of poor countries can build an international political entity but it hardly can offer economic assistance to a single LDC.⁵

The theoretical debate in the 1960s revolved around the two political economy approaches that emerged in the 1950s: the traditional Liberal perspective, the Nationalist perspective and its derivative the Dependency theory.

a. **The Liberal Perspective.** This school which perceived international trade as the key factor for increasing the wealth of nations, had welcomed foreign aid, either military or non-military, as a desired additional flow of financial resources injected into the recipient's economy.⁶ But, the Liberal perspective did not gain respect from the Third World in the 1960s.⁷

⁵. The problem of preferred modes of operation for LDCs -- associating or acting separately -- deserves a special discussion.

⁶. Based on the liberal perspective, Robert Wood conceptualizes the leading practices of aid policy as operating within an "Aid Regime" and based on some principle presumptions. The "Aid Regime," which consists of "Principles," "Norms," "Procedures" and "Rules," comprises five "operating presumptions:" (1) the "negotiating framework," (2) "identification of appropriate uses for aid," (3) "relations among donors," (4) "relations between aid and development policy," and (5) "relations between aid and debt" (1986: 98-108).

⁷. Many of the newly independent nations and the older less-developed countries, mostly in Latin America, believed in the ability of politics to solve economic problems. This

b. **The Nationalist/Dependency Theory.** This school which combines some Marxist ideas with the Structuralist approaches was propounded in the late 1950s by Raul Prebisch (1959), Samir Amin (1973) and others. It joins the claim of the "World-System Theory" that "the global economic system has evolved into a single division of labor and a corresponding social and economic structure within which each nation is embedded" (Moon, 1991: 180). Within this single division of labor, foreign aid was perceived as an instrument to maintain a global order which favors rich, capitalist countries. Aid, therefore, is not a constructive tool for promoting growth but, rather, a "structural" feature designated by donors to distort recipients' economies and to maintain a world of poor and rich nations. The proponents of the Dependency theory promulgate the idea that the terms of international trade are deteriorating over time, causing substantial damage to the economies of the Third World vis a vis the West (Prebisch, 1959). Another main theme of the Dependency argument was its frequent emphasis on "the political and social structure of dominance-dependence (power) relations" (Moon, 1991) and "feudal patterns of interaction" (Galtung, 1971 as quoted in

was the geo-political environment in which the Nationalist perspective yielded the slightly different theory, namely, the Dependency Theory.

Moon, 1991: 183). Consequently, the dependency argument claims that foreign aid and the prevailing trade arrangements are, in fact, new forms of colonialism which systematically limit the ability of the peripheral states to control and foster the development of their economies (Gilpin, 1987; Johnson, 1967:1-38; Moon, 1991; 177-184).

By the end of the "First UN Development Decade," most of its proclaimed objectives had not been achieved.⁸ The rate of economic growth was disappointing, poverty and destitution prevailed in more and more countries. Even the most competent economists failed to generate enough energy or wisdom to boost the ailing economies of the LDCs. The disappointed LDCs urged the United Nations to increase its involvement in the business of development. The preferred method for implementing a new economic order, first in the LDCs and later in the world at large, was to encourage the evolution of centrally controlled economies (Caiden & Wildavsky, 1985).⁹ Thus, again, political considerations promoted the economic policy of central, comprehensive

⁸. The United Nations, where the majority consisted of LDCs and Communist countries, provided the prestigious platform for Third World representatives to argue vehemently for redistribution of global wealth.

⁹. The Dependency Theory provided a theoretical justification for changing the existing division of labor and destroying the dominance-dependence power relations.

planning as the main tool to steer and control indigenous economies (Caiden & Wildavsky, 1985: 6-7); Johnson, 1967: 4).¹⁰

As the "market" component of the political economy formula lost ground, the Third World believed that the "state" component, exercised by political action through the UN, would be strong enough to change the order of the universe by forcing rich countries to increase their aid to and improve the terms of their trade with the LDCs. But, during the late 1960s, and in spite of their effort to generate world support for political action, the influence of LDCs on the global economy was marginal.¹¹

¹⁰. This trend was also influenced and supported by Social Democrat European ideologies (Krause, 1983: 139-153), the aspirations of authoritarian or one-party regimes in many LDCs, and the blessings of international trade and financial organizations affiliated with the United Nations.

¹¹. When the world economy changed some years later, the change occurred not because of the LDCs' demands, but rather, it resulted from other causes. Generally, it was agreed that as the old economic arrangements, established after World War II, failed to meet the new demands of the 1970s, some corrective measures were necessary, and their execution became unavoidable (Bergsten, 1975).

C. Towards a New International Economic Order (NIEO)
1971-1980

The beginning of the 1970s evoked new expectations and induced hopes that LDCs' development would find its way to success. This hope was expressed by the proclamation of the 1970s as "the UN Second Decade of Development" which reflected the growing expectations of many of UN members. Inspired by the Nationalist prognosis of world politics, the UN also promoted the idea of launching a new and better order of world economics.¹² The main (economic) rationale for proclaiming the NIEO was delineated in the Charter of Economic Rights and Duties of States which called for revision of the global transfer of resources, reorganization of international markets for commodities and manufactured goods, and restructuring of monetary institutions (Reubens, 1981: 5).¹³

Support for a different arrangement of the international economic system stemmed also from some major events of the early 1970s. Accelerating inflation and huge deficits in the US balance of payments caused the breakdown

¹². In the UN General Assembly Resolution 3201 (S-VI) of May 1, 1974, the UN adopted a "Declaration on the Establishment of a New International Economic Order (NIEO)" (Reubens, 1981: 19).

¹³. Approved in December 1974 by the General Assembly of the Sixth Special Session of the United Nations (Amacher, Haberler & Willet, 1979: 3).

of the Bretton Woods fixed exchange rate agreements, in force since the end of World War II. The oil embargo and the subsequent sharp increase of oil prices heated inflation and rapidly increased the prospective debts of the oil-importing nations.¹⁴ Thus, developed and less developed nations agreed on the need and justification for a New International Economic Order (NIEO). However, the meaning and prospects of the NIEO was perceived differently by the followers (Reubens, 1981).

a. **The Nationalist/Dependency Perspective.**

The proponents of this perspective believed that the world was in crisis and the situation was ripe for a significant structural change. They supported their economic analysis with normative calls for redistributing world resources, which had been exploited in the past by the rich Western countries. Third World writers and officials of the United Nations, who composed most of the NIEO literature, were divided into extreme and moderate schools.

The extreme school, represented by Mohammed Bedjaoui, adopted UNESCO's broader and more comprehensive definition which beheld NIEO as a:

¹⁴. It is, therefore, understandable, that "these events triggered widespread fear of a disruption of the Western industrial economies and of the international economic order, reminiscent of the economic disasters of the 1930's" (Amacher, Habeler & Willet, 1979: 1).

"movement towards a world order embracing its economic, social and cultural dimensions and satisfying the basic human aspirations toward progress, peace and justice" (UNESCO, Medium-Term Plan 1977-1982, p.xxxii).

Bedjaoui (1979), an Algerian diplomat and lawyer, wrote "Towards a New International Economic Order" for UNESCO, and used his French education and his professional rhetoric for promoting the ideas of NIEO and expressing the anger and the emotions of Third World politicians. Bedjaoui uses his capacity as a politician and jurist (not an economist), for proposing political rather than economic solutions for the problems of world poverty. The normative ethical claim was supposedly the first and may be the strongest argument for NIEO. It was a call against global injustice, with the rich nations (the minority) having much and poor nations (the majority) having little.¹⁵ The anger on world injustice is well expressed by the following citation: "Even consumption (of food) by animals in the prosperous states takes precedence over human consumption in the underdeveloped

¹⁵. The rationale for the NIEO is well illustrated by the following quotation: "The present international order has mainly contributed to the consolidation and concentration of economic power in a few nations ... and to the maintenance of more than two thirds of mankind in poverty and dependence. The wealthy societies contemplate with indifference or even hostility the despair of the people living in poverty" (Jorge Castaneda, 1974, quoted in Bedjaoui, 1979: 23).

countries."¹⁶ Bedjaoui characterized the current world order (in the 1970s) as an "international order of poverty" that, owing to the Cold War zones of influence, became an "institutionalized disorder." Obviously, this disorder emerged from "imperialism, colonialism and neo-colonialism" and produced "dependency, exploitation [and] the looting of the resources of the Third World." The revolutionary spirit even inspired Bedjaoui to predict the future, concluding with a great faith in the inevitability of the initiation of the NIEO.¹⁷ Bedjaoui's rhetoric, in its demands for redistribution of world wealth, well demonstrates the line of thought which claims that a well led political action can achieve significant economic short-cuts in the long road to prosperity. This belief, that releases the LDCs from the hardship of the global market competition by replacing that economic competition with a political struggle, was willingly embraced by writers in the West (see for example, the Brandt Report, 1980), as well as by political leaders of the LDCs.

¹⁶. American statesmen admitted in this matter that "We use the food as ammunition" declared Senator McGovern, and "food is a weapon" said Secretary of Agriculture, Earl Butz (cited in Bedjaoui, 1979: 33).

¹⁷. "Everything gives grounds for thinking that we are witnessing the twilight of an era now completing its historical function, and that we are on the eve of great structural revolutions in every field" (p. 23).

A different approach appears in a later book written by a prominent Indian scholar, P.N. Agarwala (1983), "The New International Economic Order." In this book, Agarwala refers to the justification for NIEO but rejects Bedjaoui's call for world revolution. He claims that the New International Economic Order is needed not because the traditional order is wicked, immoral, or unjust; but because, in the longer run, it does not bring real benefits to anyone in our rapidly changing international political, social and economic situation. "The best evidence that the present international economic order is inadequate is that it has led the world economy into chaos" (p. 9). In conclusion, Agarwala conceptualizes NIEO on two levels: means and end. The NIEO, as a means, could be used as a vehicle for improving transfer of resources from the North to the South. As an end, NIEO sought to change the international economic system and the decision-making processes of multilateral development organizations in order to ensure a more equitable participation in economic progress by the developing countries (p.335).

b. **The Liberal Perspective**

Some liberal writers agreed that the old system "collapsed" in the early 1970s (for example, Bergsten, 1975: 3); others claimed that the world economy faced increasingly serious challenges, and therefore, must be changed

(Amacher, Haberler & Willet, 1979: 1; Reubens, 1981: 5). However, all liberal economists call for reexamining the attitudes of the industrial countries toward the non-industrial countries. But, they argue that the LDCs (or the Third World) do not constitute a monolithic entity.¹⁸ Their hardship should not be ignored, but each country of this group should be treated separately and specifically. Additionally, liberals warn against regarding protectionism as the panacea for all the illnesses of the world economy, and they dismissed the calls of the NIEO proponents for revolutionary actions.¹⁹ Liberal economists claim also that the status quo is needed for accelerating international prosperity.²⁰ Edwin Reubens, however, does not see good reasons to oppose the NIEO. He envisions four types of reform arrangements: (1) A worldwide arranged system of trade and finance; (2) a planned program of economic development; (3) a worldwide movement toward open migration; and (4) a system of multinational blocs (Reubens, 1981: 12-

¹⁸. See our argument about the diversification of the LDCs and the obsolete meaning of the term "Third World" in the "Classification Model" in Chapter Six.

¹⁹. A "Cool Look" on the NIEO Proposals is delineated by W.M. Corden (1979), where he dismissed most of the arguments of the NIEO proponents.

²⁰. "Tolerance and cooperation are necessary to preserve and strengthen the operation of the international economic order according to liberal principles" (Amacher, Haberler, & Willet, 1979: 5).

13).²¹

In conclusion, it appears that the greatest impact of the NIEO is not in opening new avenues of development for the LDCs, but rather in assisting the LDCs to place themselves and their priorities on the international political economy agenda. The LDCs, that thirty years ago were objects of world politics, assume command with the proclamation of the NIEO (Blake & Walters, 1976). Whether this command position helped the LDCs to gain economic growth in the following years is a question to be explored.

D. Reaganomics or Development Without Aid 1980-1990

The financial crisis of the West in the 1970s pushed private banks to look for alternative investment opportunities. This, together with the urge of the UN to assist the Third World and the desire of the World Bank to expand its international activities, resulted in a huge

²¹. Although some of Reubens' propositions are incorporated in later UN policies, his third proposition poses an intellectual challenge to the extreme anti-protectionism economists. Reubens asks: why not apply the principles of free flow of goods also to labor? He argues that in a world whose economy is directed only by market forces, it makes sense to "bring people to the opportunities in contrast to bring the opportunities to the stationary people." The theoretical results of this type of open world would be equal per capita incomes around the globe (Reubens, 1981: 13). This unsolved intellectual challenge also indicates that economic theories or rational considerations alone, without being connected to social, cultural and political concerns cannot solve world problems.

increase of financial flow into the LDCs during the 1970s, (see Table 3.1). The flow of total financial resources into the LDCs in 1960 was \$7.6 billion (\$5.0 billion official and \$2.6 billion private). In 1970, investment had grown to \$17.4 billion (\$10.0 billion official and \$ 7.4 billion private) and in 1980, to \$85 billion (\$43.6 billion official and \$41.4 billion private)(Wood, 1986: 83). Consequently, long-term annual debt service grew tremendously from \$10.5 billion in 1971 to \$100 billion in 1981 (Wood, 1986: 264).

Obviously, this reality of heavy indebtedness became a key factor in any discussion of the LDCs (Obasanjo, 1991; Wood, 1986). The indebtedness was also perceived as a critical parameter for categorizing Third World nations (Kennedy, 1993; Ravenhill, 1990). On the other hand the early 1990s became a "benchmark year for Africa" and for most of the LDCs "in much the same way that 1960 was." The collapse of the Communist Bloc and the demise of the Soviet-oriented centrally controlled economies led more and more leaders of the former Third World countries to realize that they would have to share their power with other parts of their constituency. In the 1960s, the primacy of politics was regarded as a prerequisite for a top-down development policy. In the late 1980s, the introduction of free-market practices into LDCs' national economies amplified calls for democratization by both political and economic groups.

Table 3.1: Capital Flow into LDCs and their Annual Debt Service, 1960-1980 (billions of current dollars)

| | 1960 | 1970 | 1980 | Change 1960-80 |
|---------------------|------|------|-------|----------------|
| Official | 5.0 | 10.0 | 43.6 | 872% |
| Private | 2.6 | 7.4 | 41.4 | 1592% |
| Total | 7.6 | 17.4 | 85.0 | 1118% |
| | | 1971 | 1981 | |
| Annual debt service | | 10.5 | 100.0 | |

Source: Wood, 1986: 264

During the 1980s, authoritarian rulers in the LDCs were able to blame their economic hardship on the West, the World Bank and the International Monetary Fund (IMF). But, when political and economic reforms were introduced into Eastern European countries, which had once been a "model of rule" for the LDCs, there was no longer any reason for withholding these reforms from LDCs in other parts of the world (Hyden & Bratton, 1992). The decentralization, or the democratization of political life in the West also contributed to the change in the LDCs' approach. A centralized approach to political order symbolized the West in the post-World-War II era and as such it was proposed to LDCs as a method of governance (Apter, 1965). But, unfortunately, this approach led many LDCs to be ruled by autocratic and corrupt governments. Only toward the end of the Cold War, in the late 1980s, did this strategy lose most of its justification and, therefore, began to change (Austin, 1984; Leonard, 1986; Wunsch, 1986; Wunsch & Olowu, 1992). The authoritarian regime had differing effects on the economic growth of LDCs in Asia and in Africa. In many Asian nations, particularly in the four NICs (Hong Kong, Singapore, South Korea and Taiwan) and Thailand, strong authoritarian governments restricted political democracy but endorsed free-market principles and implemented them in the national economy. In those countries political means were

harnessed for promoting economic ends. For them, the achievement of economic independence and prosperity were ultimate goals that justified restraining democracy. But in Africa the reality was different. Ruling elites often use their political power to expand their rule and fulfill their own coffers. Many African nations experienced an authoritarian regime that gave rise to corruption and poverty. In addition to indebtedness, "the excessive centralization of institutions of government in Africa since independence has seriously impeded Africans' ability" to develop themselves (Wunch and Olowu, 1992: 7).

The political and economic development of the LDCs in the 1980s serves as a measure of their progress from a centrally controlled to a free-market economy. This process of transition and its outcome often did not follow the theoretical principles of either the Liberal or the Nationalist theories. The successful nations adopted, in practice, a strategy that combined elements from the two theories. They realized that free-market principles promise more wealth, but they did not rely on those principles only. They employed state-owned enterprises to hasten the process of economic growth. They recognized the great potential of a global open market, but used state-owned institutions to promote their commercial interests there. Additionally, it seems that those governments did not bother themselves too

much with maintaining a full, western-type democratic regime, and civil rights were not their main concern.

In sum, it appears that, in the 1980s, the leading successful LDCs executed a political economy strategy that set economic growth as the primary national goal. To achieve this goal, governments adopted the traditional Liberal perspective but added to it some Nationalist principles. Apparently, the success of these governments indicates that an LDC which seeks economic growth should harness most of its public and private resources to attaining this goal.

After discussing the general theories of development, we move now to delineate, in the next chapter, the method of inquiry employed in this project.

Chapter Four: Methodology

A. Multiple Case Study as a Research Method

The purpose of this dissertation is to study practices of U.S. aid and trade policies. Studying such a complex policy problem, which involves over 150 countries, can be done by analyzing the impact of these policies on either all the recipients or on a group of representative nations selected as a sample for analysis. Because of the enormous amount of data involved in a comprehensive study and in order to keep the research within the manageable scope of the dissertation, the researcher preferred to conduct the study on a small group, selected to form a significant representation of a much greater number of nations.

Case study methods and particularly the multiple case study approach provides the appropriate research design and is an evaluation method well suited to the purpose of this project. Multiple case study addresses contemporary events and is concerned with contextual factors that are significant in the analysis of a complex problems such as aid and trade policies. The multiple case study methodology facilitates the exploration of "how and why" aid, trade and economic growth are related and "how and why" they affect aid recipients and or trade partners. Researchers into aid policy must be concerned with the inherent diversity which exists among aid recipients, the various effects aid has on

different nations and its impact on developing international relations. In studying this policy, as in researching other public issues, one should know that cause and effect do not act just in one logical direction. Public affairs are influenced by many participants, who pursue the fulfillment of their various interests in many different ways. Usually, political actions emerge through continuous processes of bargaining and negotiating. These processes include official proclamations, informal talks, dissemination of information, superficial behavior and public relations activities. It is almost impossible to identify one single factor as being responsible for creating or resolving a complex public policy.

Multiple case study is helpful in exploring such a public policy problem because it examines the cases and incorporates the findings into a multiple case framework, which is examined against the conceptual assumptions. In this study, both quantitative and qualitative information, assessments and evaluations were collected from many data sources and then examined against the arguments of the Liberal and the Nationalist theories. The study investigates U.S. aid and trade relations with a group of LDCs and enables us to determine who benefits more from these relations, the United States or the recipients. The findings are examined against the above two alternative

interpretations and conclusions are drawn for future behavior.

Because multiple case study methodology, unlike statistical analysis, has only a few firm guiding formulas for analyzing the findings, much depends on the experience of the researchers and their acquaintance with the cases examined (Yin, 1984). For that reason the researcher combines his own expertise, derived from working many years in LDCs, with the contributions of other specialists in international development. In this way, knowledge obtained from interviews and meetings with specialists is involved in clarifying, interpreting and illuminating ambiguous and equivocal results derived from the analysis. Additional information, obtained from interviews with representatives of LDCs, in Washington DC and in Israel, provided personal insight and first-hand assessment of the LDCs' opinions regarding aid and trade with the United States. The qualitative information, obtained from literature, interviews, testimonies and hearings, combined with quantitative information, derived from the analyzed data, enable the researcher to draw conclusions on the past and propose recommendations for the future.

The inquiry is conducted in six stages: (1) Defining and discussing the terms; (2) Setting criteria and selecting a group of countries as subjects for the research; (3)

Analyzing data on U.S. aid and trade relations with the examined recipients; (4) Identifying general principles and political economy patterns that characterize aid and trade activities; (5) Examining the findings of the analysis for compliance with either the liberal or the nationalist perspective; and (6) Drawing conclusions and recommendations for the future.

B. **Sources and Techniques for Data Collection**

Data required for the study exist in both quantitative and qualitative forms. Data on foreign aid, trade statistics and measures of recipients' development are available in many forms via a wide selection of publications of U.S. governmental agencies (Departments of State and Commerce, USAID, U.S. Trade Representative and the Bureau of Census). Information was also gathered from participating in the House and Senate Hearings, personal interviews with Congressional staffers, policy makers and executive branch officials. Additional sources were testimonies, policy papers, official documents, case studies, countries' monographs and publications of international institutions such as the World Bank, the IMF, and United Nations. USAID information about foreign assistance¹ details the amounts of

¹. The data on foreign aid, published by USAID in its annual publications, covers periods of three to five years. The figures are presented in current dollar values which not always fit totals of longer periods of ten or twenty years.

aid allocated, according to recipient country, objectives, missions, and programs.

C. Problems of the Quality of Data Obtained from LDCs

Although the relevant data are collected, processed and published by reputable international bodies, there is room for doubt about the validity, the reliability and the meaning of the information collected from some of the less developed countries.

Firstly, it makes sense to assume that an inherent bias exists in data gathered from LDCs.² Shortage of social services and infrastructure, biased traditional procedures for collecting statistics and a tendency to report politically acceptable information rather than factual data are common in those countries (Van Sant 1989). Secondly, the validity of the data provided is questionable. Kirk & Miller (1986) note that in social research "perfect validity" is not "even theoretically attainable" (p. 21).

USAID is also the source for the information on total foreign aid published in the US Statistical Abstracts. Since both USAID and the US Statistical Abstracts publish their information in current dollar values, we find no harm to use the same numbers in our research. Converting current dollar into constant dollar values is necessary only in case of conducting a specific profitability or cost/benefit analyses. For most political economy purposes the use of current dollar values is satisfactory.

². Miles notes that "there is no truly objective survey operation, especially in small LDC societies, and especially when the questions may be of political or social significance" (1989: 854).

Naturally, doubts rise about the validity of data concerning political issues in which so many have a stake. The providers of the information, the ruling bureaucrats in LDCs, often deliver information that benefits them and increases their prestige and power. From their point of view, there is no reason to report a high level of infant mortality or a low level of literacy, if the official policy claims differently. On the other hand, if the allocation of resources, either workers or budgets, is directed to meet policy demands supported by statistics, the information will be distorted and prepared in such a way that it will justify an enlarged budget. Thirdly, there is the problem of reliability in measuring social phenomena, particularly in LDCs. Substantial difficulties arise in determining the circumstances in which the observation or counting took place. The fact that different values are assigned to the same phenomenon or one value represents different phenomena challenges the meaning of the evaluation and show the complexity of reliability of Third World's statistics. The stability of an observation over time, also poses doubts about data obtained from countries under unstable political regime. Similar and uncritical observation, influenced by particular interests of the observers, indicates also on the danger that data may have been manipulated by governmental

officials.³ To overcome the problems of limited reliability and validity of the LDC's data, and to negate the effects of episodic or annual deviations, an index-oriented historical data analysis is employed in this research, in addition to the traditional correlation and regression analyses. The index-oriented method as well as the statistical analyses facilitate us to identify the major changes in the countries examined. These analyses are used for comparing the variability of the various activities, executed by different governments and for determining the political-economic tendencies in those countries.

In sum, creating favorable data and reporting wishful thinking instead of facts is a common practice in many LDCs. There is, therefore, less room and a smaller justification for conducting a scientific need assessment and an objective evaluation of data obtained from LDCs (Miles 1989).

D. **Statistical Data Analysis Methods**

A statistical analysis of the relationships established among aid, trade and economic growth was conducted for some countries. Description of the analysis is presented in a separate Appendix.

Regression analysis of a public issue, as is the subject examined in this research, suffers basically from

³. Kirk & Miller, 1986: 41-42.

two major weaknesses; first, it measures straight-line relationships and secondly it assumes that past developments will continue to the future. Since the subjects examined in this case are political issues, both assumptions do not work here. The socio-economic variables of this study are influenced, directly and indirectly, by many factors and interest groups, therefore, they do not varied proportionally and cannot be predicted precisely. The fact that both aid and trade are only two ingredients among many other that affect and determine economic growth, is also a serious weakness of the regression analysis. Being aware of these drawbacks, the regression analysis is employed as an additional tool for the inquiry of aid and trade practices.

Another inquiry method used in this research is the index-based technique which helps to overcome some of the problems endemic in the quality of data obtained from LDCs and published by international institutions (see section C). The index-based inquiry technique also enables us to ignore the influence of exceptional years, events and episodic situations, and to obtain a more consistent course of behavior over the period examined.

The findings of the analyses, and the index-based examination, are delineated in Chapters Six and Seven.

E. The Researcher's Personal Approach and Conceptual Attitude

"The ways we perceive reality, the ways we think, and the ways we solve problems are all embedded in a context"

Moshe F. Rubinstein, 1986: 13

Multiple Case Study methodology allows, or even encourages, the use of the researcher's personal expertise and familiarity with the subject in the analytic stage of the study. Thus, an experienced, thinking investigator who knows prudently to interpret the evidence has great advantages over the novice who carefully follows the rigorous statistical findings (Yin, 1984: 99-100). This reliance on the professional capacities of the experienced investigator drives me to delineate my approach and intellectual faculties which serve me in researching political economic public policies.

Rubinstein (1986) counts flexibility, creativity and a heuristic approach as skills required from a competent researcher;⁴ Many years of working and managing development operations in different parts of the world

⁴. "Flexibility in employing frames of reference," and "a positive Attitude" which comprises creative thinking and a heuristic approach. Creative thinking is perceived by Rubinstein as the ability to "tolerate complexity, uncertainty, conflict and dissonance." Heuristic approach refers to "rules of thumb" that "increase the probability of finding solutions with less time and effort" than that required by traditional statistical analysis (Rubinstein, 1986: 28-29).

caused me to adopt these three skills as guiding principles for conducting this research. Investigating the relationships among aid, trade and development refers to a set of political economy propositions that reside on some accepted normative paradigms and a well-grounded conventional wisdom of the Western civilization.

My encounters with non-European cultures (such as the Arabic, African or Chinese) released me from having any guilt feeling about the global distribution of wealth. Consequently, I do not pretend to offer an exclusive solution to the problem of wealth disparity among people and nations. In fact, I doubt whether a single rationale can be blamed for the present conditions and whether an optimal solution exists at all. History does not teach us whether there is any possibility, and, if so, what means would be suitable, for closing the gap between rich and poor, between peoples and between nations. My difference with the international and national aid establishments is on their pretension to have solutions for the LDCs' problems, and their emphasis on an economics-oriented rationale. Mary Douglas's (1986) description of "How Institutions Think" is helpful for understanding the intrinsic biases incorporated in the aid establishment's mode of operation. A recent critique on A.I.D.'s mode of operation, expressed by high

level policymakers such as Senator Leahy (1993),⁵ and Brian Atwood (1993), support the demands for reforming foreign aid policy. My call against the superficial objectivity of the aid bureaucracy is also supported by Karl Weick (1979) who notes that:

"Organizations, despite their apparent preoccupation with facts, numbers, objectivity, concreteness, and accountability, are in fact saturated with subjectivity, abstraction, guesses, making do, inventions and arbitrariness" (p.5).

I claim that we are still in the "pre-paradigm period," where many theories are competing to provide a workable solution for the aid problem. As a matter of fact, there is no one way to develop LDCs. The linkage between development, economic growth and influx of external capital is unclear and uncertain at present. There is not enough evidence for endorsing economic aid as the main avenue for development. The role of international trade, its effect on development and recommended methods for enhancing it are still subjects for examination.

Aware of my own subjectivity, I began the investigation by questioning the reasoning for the rigid commitment of Western nations to the terms of reference posed by the Brandt Commission. Following Rubinstein's advice I incline

⁵. Chairman of the Senate Subcommittee on Foreign Operations Appropriations.

to introduce a more heuristic and flexible approach into the definition of the problem. I tend to release the discussion from the value-loaded tone of the Brandt report, and from the enormous challenge it set for the West. I reject the ideological manner of the Brandt program and adopt a more pragmatic approach.

For investigating the intricacy of "North-South relationships" creative thinking, ability to "tolerate complexity, uncertainty, conflict and dissonance," and some practical "rules of thumb" are employed. As with the assessment of other social and political affairs, my experience-oriented intuition, common sense, and an inclination to examine processes, preferences and tendencies, rather than snap-shooting individual events are used. The process-oriented way of thinking led me, in this research, to study the variability of aid and trade by several inquiry methods, such as, qualitative investigation, correlation and regression analyses and an index-based historical data examination.

PART III. CONDUCTING THE RESEARCH

Chapter Five: Classification Methods

A political economy model for classifying LDCs by the nature of their government and the extent of their involvement in world trade, is delineated in this chapter. Then an "Aid and Trade Matrix" for categorizing LDCs by their trade relations with the U.S. is presented. Using these methods for categorizing LDCs and aid recipients helps in identifying the impact of the variables under investigation on the economic growth of the relevant countries. Through a process of elimination the finalist subjects countries for the research are then selected.

A Theoretical Rationale for Setting Selection Criteria

Selecting subjects for a study from a population of more than 150 aid recipients was a major problem because of the dissimilarity of the LDCs and the rigidity of traditional statistical sampling methods. The selection was carried out, therefore, through a process of classification where LDCs were categorized for common traits and similarities. Choosing the criteria for the examination, in this case, the amount of total American aid received, and the volume of trade with the U.S., enables than to select LDCs by these criteria. Since the whole population affiliated with a certain category was not too large

(between 10 to 15 subjects) it was decided to examine the whole group. Let us now detail some of the classification methods.

B. Classification Methods and Instruments

The two classification methods used in this study, reside on sets of parameters which assist in determining the specific political economic behavior of the countries under examination and enable one to draw conclusions on future developments. The first classification method addresses the form of an LDC's government, its competence in meeting its peoples' needs and the nature of its involvement in the global market. This method examines the linkage between political factors (mainly democratic versus non-democratic regimes) and international trade considerations. The analysis is also helpful for identifying connections, association and relationships between political regimes and economic accomplishments. The second method categorizes LDCs by their relations with the U.S. It refers to the volume of aid they have received and their size as a market for American goods.

1. The "State and Market Matrix"

This is a political economy classification model that assesses the influence of political and economic considerations on the behavior of nations and facilitates classifying and theoretically identifying regimes by their

political economy ideology and their national and international status. The model matches two fundamental elements of the "state" and the "market" and produces theoretical combinations which reflect the nature of the regime. One yardstick for evaluating political progress is the degree of practicing democracy: a more democratic regime is a more progressive one. The second variable for evaluating a nation is the type and amount of its exports to the global market. This variable epitomizes trade activity and measures the extent of market influence on policymakers: a nation where exports are an important source of income depends more on international trade than a country with small exports. World market considerations and trade arrangements, therefore, have a substantial influence on government of such an export-oriented country. The model produces feasible combinations derived from various political ideologies (democratic v. non-democratic regimes) and economic practices (types of export).

The model is created in two phases: The first phase produces a political matrix that facilitates the characterization of nations in terms of their political regime. The second phase incorporates export practices into the political matrix and so creates a the "State" and "Market" classification matrix.

Phase one: Creating the "State" (political) matrix.

In this phase, the subject at issue is the state's political system. This variable reflects a combination of the political ideology of the regime and government effectiveness in administering its policy and taking care of its citizens. Prototypes of political regimes are identified here by matching democracy with government competence. Although it is not common to use quantitative measures for assessing government ideology and competence, there are some evaluation methods which allow political behavior to be quantified.¹

The two combined variables, Democracy and Government Competence, are measured on a five-digit scale which was designed to facilitate a large variety of grading.

- (1) Democracy is measured on a scale of 1 to 5, where D1 represents a Low and D5 represents a High democracy.²
- (2) Government Competence is also measured on a scale of 1 to 5, where C1 represents Little Competence and C5 represents a Competent administration.³

¹. It is beyond the scope of this study to detail available methods of evaluating political regimes. A recent work of Reubens (1991) is an interesting example of evaluating democracy.

². For a thorough discussion of evaluating and measuring human needs and particularly democracy see Moon, 1991: 254-283.

³. This "State" factor appears in Ravenhill's (1990) classification of LDCs as the second variable: "the capacity and the strength of the state apparatus" (p. 745).

Full-fledged Western democracies are designated by the study as the desired type of regime, which attains the highest grades of democracy and social competence. These are governments that are fully committed to democratic procedures (D5) and are well aware of and competent in meeting the cultural, social, and economic needs of their people (C5).⁴ Western nations, therefore, are ranked as the D5C5 combination. Dictatorships reside on the lowest point, with minimal democracy (D1) and little desire or competence (C1) to satisfy their peoples' needs. Dictatorships, thus, are symbolized by the D1C1 combination. All other nations, most of them LDCs, are located between the two extreme groups on our scale. Moderate values of democracy and degrees of government competence can be graded by various combinations, such as D2C3, D3C4, D4C2. However, a nation's rank on the democracy or the competence scale (D and C values) reflects only a relative position in its category. Often, a nation's rank on democracy does not correlate with its economic performance; a weak democracy (D2), for example, may perform better than a moderate democracy (D3),

⁴ Although government competence can not be measured precisely it can be determined by combining social indicators on health, education and welfare with economic indicators on income distribution. These indicators are quantitatively calculated and periodically published by the United Nations, the World Bank and other international institutions.

and vice versa. Although categorizing nations on an ordinal scale of three or five grades is not always accurate, it is sensitive and illustrative enough to meet the study's requirements of classifying and defining LDCs. Figure 5.1 illustrates some of the possible combinations.

Although 25 possible combinations of democracy and competence can theoretically emerge from a 5x5 matrix, a few prototypes, delineated below, suffice to demonstrate the usefulness of the concept as a categorizing method:

1. D1C1 - **A Non-Democratic, Little-Competence Regime (NDLC)**
An anarchy, government has lost control and provides very minimal services, typically for very poor countries like Afghanistan or Somalia.
2. D3C1 - **A Semi-Democratic, Little-Competence Regime (SDLC)**
Countries that have moved from one-party government but are still led by a small elite and a large ineffective bureaucracy, like most of the Less Developed Countries.
3. D3C5 - **A Semi-Democratic, High-Competence Regime (SDHC)**
Countries which have moved toward a greater participation of their citizens in government and are efficient in administering their social and economic policies, like South Korea or Taiwan.

Categorizing nations according to their political regime is only the first phase in the political economy analysis. In the next phase, these regimes are examined for economic conduct in the global market.

| | <u>Degree of Democracy: (D Values)</u> | | | | |
|-----------------------|--|------------|-----------------|-------------|------------------|
| | <u>Very Low</u> | <u>Low</u> | <u>Moderate</u> | <u>High</u> | <u>Very High</u> |
| | 1 | 2 | 3 | 4 | 5 |
| <u>Government</u> | | | | | |
| <u>-Competence:</u> | | | | | |
| <u>(C Values)</u> | | | | | |
| 1. <u>Very Little</u> | D1C1 | D2C1 | D3C1 | D4C1 | D5C1 |
| 2. <u>Little</u> | D1C2 | D2C2 | D3C2 | D4C2 | D5C2 |
| 3. <u>Moderate</u> | D1C3 | D2C3 | D3C3 | D4C3 | D5C3 |
| 4. <u>High</u> | D1C4 | D2C4 | D3C4 | D4C4 | D5C4 |
| 5. <u>Very High</u> | D1C5 | D2C5 | D3C5 | D4C5 | D5C5 |

Figure 5.1: Theoretical Types of Political Regimes -
Combinations of Democracy and Measures of
Government Competence

Phase two: Creating the "State and Market Matrix"

In this phase the "State" component, represented by the political regime, is confronted against the "Market" component which measures the state mode of economic activity (trade) in the international arena. Introducing trade as a variable in the political economy model assists in understanding how nations accumulate wealth, how they are involved in the global economy and thus, what is their degree of development. This approach is supported by scholars who introduced measures of political capacity, trade figures and GNP per capita, for attaining better classification of nations, previously defined as Third World.⁵ At present, a new comprehensive measure, which encompasses per-capita income, patterns of international trading and types of political regime, seems to provide a more adequate indication of a nation's level of development and wealth. This multi-factor indicator appears to be more representative than either political or economic measures alone.

Furthermore, international trade in manufactured goods can be used as a measure of the progress of

⁵. With the collapse of the Second World (the Communist Bloc) and the growing differentiation among the poor countries themselves (the Third World), and the rise of the Newly Industrialized Countries (NICs), the old labels of LDCs, such as "South," "Periphery" and "Third World" became both obsolete and useless (Kennedy, 1993; Ravenhill, 1990).

industrialization, which is a critical process in attaining economic growth (Gilpin, 1987; Johnson, 1982; Ravenhill, 1990). International trade provides greater benefits to wealthier countries, which are more industrialized and depend more on international markets for their products than their less wealthy counterparts.

The World Bank classification defines several forms of Export which participate in international Trade and affect the Market. This classification contains three items:

"Nonfuel Primary Products (P), Fuels (F) and Manufactures (M)."⁶ Two additional categories were introduced by the

researcher for covering better all the other cases:

Negligible (N) for cases of insignificant exports and miXed (X) for cases where no one item predominates. These five major export items characterize every national economy and reflect the form and extent of its involvement in the global market. A country is characterized as a particular kind of trader when it has an export-oriented economy (exports contribute over 15% of the GNP) and a specific export item dominates its international trade. OPEC countries, for example, are characterized as exporters of fuels, a feature that significantly affects their national economy and dominates their international policy.

⁶. World Tables, 1990-91

Incorporating the export characteristics within the political matrix creates several descriptive combinations for labeling LDCs. We believe that a country is better described by a label that reflects its regime (Semi-Democratic and Less- or Moderate-Competence Government) and its trade capacities (primary products, fuels or manufactures) than by the general terms of "Developed," "Less Developed" or a "Third World" country. Figure 5.2 illustrates some possible combinations of regime and trade. Figure 5.3 offers a another version that uses numbers to denote the level of Democracy and Government Competence, such as 1D, 5D or 5C. This version increases the capacity of this classification tool and facilitates the use of quantitative measures for determining and evaluating the rate and the direction of development for every single LDC.

Form of Export:

- (N) Negligible
(P) Primary products
(F) Fuels
(X) mixed export
(M) Manufactures

N P F X M

Form of Government:

| | | | | | |
|--|-------|-------|-------|-------|-------|
| 1. A Non-Democratic, Low-Competence Regime (D1C1) | NDLCN | NDLCP | NDLCF | NDLCX | NDLCM |
| 2. A Non-Democratic, High-Competence Regime (D1C5) | NDHCN | NDHCP | NDHCF | NDHCX | NDHCM |
| 3. A Semi-Democratic, Low-Competence Regime (D3C1) | SDLCN | SDLCP | SDLCF | SDLCX | SDLCM |
| 4. A Semi-Democratic, Moderate-Compet. Regime (D3C3) | SDMCN | SDMCP | SDMCF | SDMCX | SDMCM |
| 5. A Semi-Democratic, High-Competence Regime (D3C5) | SDHCN | SDHCP | SDHCF | SDHCX | SDHCM |
| 6. A Democratic, Moderate-Compet. Regime (D5C3) | DMMCN | DMMCP | DMMCF | DMMCX | DMMCM |
| 7. A Democratic, High-Competence Regime (D5C5) | DMHCN | DMHCP | DMHCF | DMHCX | DMHCM |

Figure 5.2: Types of Political Economy Regimes,
Incorporating Degree of **Democracy**, Measures of
Government **Competence** and Forms of **Export**.
Version I.

Form of Export:

- (N) Negligible
(P) Primary products
(F) Fuels
(X) mixed export
(M) Manufactures

N P F X M

Form of Government:

| | | | | | |
|--|-------|-------|-------|-------|-------|
| 1. A Non-Democratic, Low-Competence Regime (D1C1) | D1C1N | D1C1P | D1C1F | D1C1X | D1C1M |
| 2. A Non-Democratic, High-Competence Regime (D1C5) | D1C5N | D1C5P | D1C5F | D1C5X | D1C5M |
| 3. A Semi-Democratic, Low-Competence Regime (D3C1) | D3C1N | D3C1P | D3C1F | D3C1X | D3C1M |
| 4. A Semi-Democratic, Moderate-Compet. Regime (D3C3) | D3C3N | D3C3P | D3C3F | D3C3X | D3C3M |
| 5. A Semi-Democratic, High-Competence Regime (D3C5) | D3C5N | D3C5P | D3C5F | D3C5X | D3C5M |
| 6. Democratic, Moderate-Compet. Regime (D5C3) | D5C3N | D5C3P | D5C3F | D5C3X | D5C3M |
| 7. Democratic, High-Competence Regime (D5C5) | D5C5N | D5C5P | D5C5F | D5C5X | D5C5M |

Figure 5.3: Types of Political Economy Regimes,
Incorporating Degree of **Democracy**, Measures of
Government **Competence**, and Forms of **Export**.
Version II.

The classification method which emerges from the "State and Market Matrix" assists in creating a more useful topology of nations known generally as LDCs. Classifying LDCs by the newly proposed method produces variations of three typical groups:

1. **Non-Democratic Low-Competence** regimes (**NDLC**) which have either Negligible exports (NDLCN), exports of non-fuel Primary Products (NDLRP), or exports of Fuels (NDLCF).
2. **Semi-Democratic Low-Competence** regimes (**SDLC**) which have either Negligible exports (SDLCN), exports of non-fuel Primary Products (SDLCP), Fuels (SDLCF), or mixed exports (SDLCX).
3. **Semi-Democratic Moderate-Competence** regimes (**SDMC**) which export either non-fuel Primary Products (SDMCP), Fuels (SDMCF), or mixed exports (SDMCX).

The new classification method proposed here, is important also because it assists in diagnosing the causes and origins of the LDCs' poverty.⁷ In this matter, this dissertation joins other contemporary calls for changes in the existing political terminology (Kennedy, 1993; Ravenhill, 1990).

After categorizing LDCs by their international behavior they can further be classified by their relations with the

6. Although it seems obvious that a diagnosis of LDCs' backwardness can be achieved only by a sincere analysis of past performance and by identifying the differences among them, few policy makers and scholars are willing to challenge the existing terminology of LDCs. The proposed method of classification, together with other new methods (Kennedy, 1993; Ravenhill, 1990) constitute a helpful tool for such an inquiry.

United States. This classification is outlined in the next section, in the "Aid and Trade Matrix."

2. The "Aid-Trade Matrix"

Two criteria were chosen for the classification process:

- * (a) the amount of aid received from the U.S. and
- * (b) the size of an LDC as a market for U.S. exports.

These criteria were used because they represent measurable variables, they reflect the concerns of the American public and they have the potential of meeting the principal concerns of the people.⁸

(a) The Volume of American Assistance

This variable comprises total accumulated aid disbursements delivered to one recipient during the past forty-five years;⁹ Aid recipients were classified into four categories of negligible, small, medium, and large volume of aid:

⁸. Conventional wisdom claims that augmenting world wealth eventually affects people all over the globe. However, many Americans, especially policymakers, are not content with such a general claim. They prefer to support a policy that promotes their interests and contributes to their own well-being (Senator Lehey, 1993).

⁹. As previously mentioned, the research focuses on total and economic aid. Military aid is examined for its indirect economic influence of building infrastructures and integrating external know-how.

0. Negligible Aid (NA) - recipients of less than \$100 million.
1. Small Aid (SA) - recipients of \$100 million to \$1 billion.
2. Medium Aid (MA)- recipients of \$1 billion to \$5 billion.
3. Large Aid (LA) - recipients of more than \$5 billion.

The distribution of recipients by category is as follows:¹⁰ (see Table 5.1)

- * 37 nations belong to the first category (recipients of less than 100 million of current dollars);
- * 54 nations belong to the second category (recipients of \$100 million to \$1 billion);
- * 41 nations belong to the third category (recipients of \$1 billion to \$5 billion); and only
- * 13 nations belong to the fourth category, that is, recipients of more than \$5 billions of aid.

(b) The Size of an LDC as a Market for U.S. Exports

This variable represents the Extent of Trade Activity, between the U.S. and the aid recipient. American interests favor increasing U.S. exports as a positive policy, which creates jobs and generates income at home. However, in the long run, U.S. exports and imports must rise together in order to generate benefits for all the trading partners.

For practical use, LDCs are classified into four categories by the size of their market for U.S. exports :

¹⁰. US Overseas Loans and Grants, 1991, Cong-R-0105

- I. Negligible Market (NM) - Annual U.S. sales of less than \$100 million.
- II. Small Market (SM) - Annual U.S. sales between \$100 million and \$1.0 billion.
- III. Moderate Market (MM) - Annual U.S. sales between \$1 billion and \$5.0 billion.
- IV. Large Market (LM) - Annual U.S. sales of more than \$5.0 billion.

An analysis of U.S. trade with the developing countries shows that:

- * Most of the LDCs belong to the first and the second categories of the model above, which, in practice, form small or negligible markets for U.S. merchandise.
- * 18 LDCs belong to the third category of being a moderate market with annual U.S. sales of \$1.0-5.0 billion.
- * The four NICs (Newly Industrialized Countries)¹¹ in South East Asia are the only former LDCs that can be categorized within the fourth category of being a large market for U.S. merchandise.

Table 5.2 presents the growth of U.S. trade during the last twenty years and the share of LDCs in this activity. The data summarized in Table 5.2 indicate that U.S. foreign trade grew remarkably during the last 20 years: exports expanded more than ninefold (from \$43.2 billion in 1970 to \$394.0 billion in 1990) while imports rose even more (from \$39.9 billion to \$495.0 billion in 1990). During that period, the share of developed countries of the U.S. trade remained almost the same (60-70%).

¹¹. Hong Kong, Singapore, South Korea and Taiwan.

Table 5.1: Distribution of Aid Recipients by Category of Amount of Aid and Region

| Category | 0. Negligible Aid | 1. Small Aid | 2. Medium Aid | 3. Large Aid | Total |
|-----------------|-------------------------|--------------------|---------------------|--------------------|-------|
| Region: | | | | | |
| Near East | 3 | 7 | 2 | 3 | 15 |
| South Asia | 2 | - | 3 | 2 | 7 |
| East Asia | 3 | 1 | 8 | 4 | 16 |
| Africa | 15 | 29 | 6 | - | 50 |
| Lat. America | 6 | 9 | 14 | - | 29 |
| Europe | 5 | 6 | 8 | 4 | 23 |
| Oceania & Other | 3 | 2 | - | - | 5 |
| Total | 37 | 54 | 41 | 13 | 145 |

Source: US Overseas Loans and Grants, 1990

Table 5.2: U.S. Exports and Imports, by Groups of Countries, 1970-1990 (billions of current dollars)¹²

| | 1970 | 1975 | 1980 | 1985 | 1990 |
|----------------------|------|-------|-------|-------|-------|
| <u>US Exports</u> | | | | | |
| Total | 43.2 | 107.6 | 220.8 | 213.1 | 394.0 |
| Developing countries | 13.0 | 39.2 | 81.1 | 71.7 | 127.5 |
| Developed countries | 29.9 | 64.8 | 130.8 | 134.0 | 256.9 |
| % of the total | 69% | 60% | 59% | 63% | 65% |
| Communist areas | .3 | 3.6 | 8.9 | 7.4 | 9.6 |
| <u>US Imports</u> | | | | | |
| Total | 39.9 | 96.9 | 244.9 | 345.3 | 495.0 |
| Developing countries | 10.4 | 39.3 | 117.0 | 116.1 | 180.5 |
| Developed countries | 29.3 | 56.7 | 125.3 | 223.3 | 297.3 |
| % of the total | 73% | 59% | 51% | 65% | 60% |
| Communist areas | .2 | .9 | 2.6 | 5.9 | 17.2 |

Source: US Statistical Abstracts

¹². The Statistical Abstracts in its foreign commerce tables divide world countries into two categories only: "Developed" and "Developing" countries. We follow this classification in table 6.2.

Matching **aid** and **trade** (or market) variables produces 12 theoretical combinations, as illustrated in Figure 5.4. Although several prototypes of recipient countries emerge from the Aid-Trade Matrix, **the inquiry focuses on recipients of Large or Moderate amounts of Aid** and their behavior as **Small, Moderate or Large Market for The U.S.**

In the next chapter problems of selecting the subject countries, and the characteristics, scope and complexity of the aid, trade and development variables are examined and discussed.

| <u>The Size of an LDC as a Market for US Exports:</u> | <u>Volume of Aid</u> | | |
|---|----------------------|---------------|---------------|
| | Small 1 | Medium 2 | Large 3 |
| I. Negligible | 1.I SANM | 2.I MANM | 3.I LANM |
| II. Small | 1.II SASM | 2.II MASM | 3.II LASM |
| III. Moderate | 1.III SAMM | 2.III MAMM | 3.III LAMM |
| IV. Large | 1.IV. SALM | 2.IV. MALM | 3.IV. LALM |

Figure 5.4: The Aid-Trade Matrix - Categorizing LDCs by their Aid and Trade Relationships with the U.S.

Chapter Six: Characteristics of Aid, Trade and Development

Several aspects of American foreign aid and trade, their definition, scope and characteristics as public issues, are addressed in this chapter. Further, Japan's foreign aid policy and multilateral assistance are briefly portrayed in order to enhance the understanding and achieve a more comprehensive knowledge on general approaches to aid. Finally, problems of less developed countries and their economic growth, which in part are the outcomes of aid and trade policies, are discussed in general terms.

A. American Bilateral Foreign Assistance

The nature of aid, as an ingredients of foreign policy, its interaction with trade their effect on the recipient's growth are examined in the following sections.

1. What is Foreign Aid?¹

The term "foreign aid," adopted by this dissertation, refers to humanitarian, economic and military assistance delivered bilaterally or multilaterally to LDCs, in the form of grants or loans, accompanied by a variety of technical assistance forms. Support for such a wide definition is

1. The Random House Dictionary defines foreign assistance as follows: "Economic, technical, or military aid given by one nation to another for purposes of relief and rehabilitation, for economic stabilization or for mutual defense" (1987: 749).

provided by economists who address aid in terms of intergovernmental concessionary financial and/or non-financial transfers from a donor to a recipient, in order to promote their mutual interests. Economists do not distinguish among the designated purposes of aid or its official forms. They argue that such a distinction between humanitarian, economic and military aid is almost worthless, since ultimately all three forms of transfer flow into the recipient economy and encompass both commercial and concessional elements that cannot be rigidly classified on the basis of any one of the three (McKinlay & Mughan 1984: 1-5). However, this dissertation does distinguish among the different forms of aid and concentrate on economic aid. Humanitarian aid and other forms of disaster relief are not examined here, owing to their relatively small magnitude (less than 10% of total foreign aid allocations) and the need to evaluate them according to different criteria. Military assistance,² which springs from political considerations, and is monitored by the Departments of State and Defense, is examined here only with regard to its economic effect on the recipients. The impact of total American aid and the direct effect of economic assistance

². The indirect effects of military aid as a source of capital and technical know-how, and as an important factor in building infrastructures is discussed in the course of the analysis.

are the public issues investigated in this study.

2. **Characteristics of American Foreign Aid Policy.**

Four principal attributes characterize foreign aid policy as part of America's political processes:

a. **Foreign Aid - an Indispensable Part of U.S. Foreign Policy.**

Although foreign aid began in the early days of the Republic as a private initiative and philanthropy, in the late 1930s it became a legitimate instrument for promoting and supporting American interests (Baldwin, 1966: 45-66; Black, 1968: 4-12). After World War II, foreign aid became an official and sometimes a crucial component of US foreign policy. Analysis of past aid activities indicates that over 80 percent of the aid was provided to America's allies and only very small amount (less than 20%) was delivered to neutral Third World countries.

Since World War II, public debates about objectives and conduct of American foreign affairs have evoked disputes about the justification and the nature of foreign aid.³ This debate between isolationists and internationalists oversteps party lines and boundaries between branches of government. The demand to allocate billions of dollars to

³. Foreign aid -- an extension of diplomacy to the materialistic domain of money and the use of arms (war) are in fact, two complementary instruments employed by governments for executing carrot and stick diplomacy.

foreign countries during a period when the Federal Budget Agreement forces cuts in many domestic programs and in every excessive expenditure lies in the core of that debate.

However, a conceptual change introduced by the Clinton Administration forced the Department of State to initiate a change in foreign aid policy. Foreign aid, generally reflects priorities of foreign policy, is required at present to adopt a new perspective. In the past A.I.D. administered many development programs but it did not address problems of national growth of either the U.S. or the recipient. It runs operations that look like an "international welfare program" and were accountable for obligating money not for achieving results (Atwood, 1993: 217-224).⁴ The new perspective on A.I.D. future objectives is included in the Secretary of State following statement:

"In this post-Cold War era, we must now target our assistance to address today's priorities: global growth and domestic job creation; transnational challenges such as diseases, environmental degradation, global population growth and migration; and promoting sustainable economies and stable democracies throughout the world" (Christopher, 1993: 228).

⁴. Another severe claims against the current aid policy are detailed in a statement released by Senator Leahy (1993).

b. **Foreign Aid - a Product of the Budgetary Decision Making Process.**

Allocating American aid to foreign countries is a multi-phase political action which uses public funds to promote the donor's objectives by providing assistance to the recipient (Cook, 1989: 203). As in other public appropriations, every step in the process poses a substantive policy dilemma which must be resolved before the next step is taken. The House and Senate Hearings on budget appropriations and authorization illustrate well how the process works. Representatives of Private Voluntary Organizations (PVO) and Non-Governmental Organizations (NGO) test before the subcommittees and demand financial support for their organizations, officials of the Executive branch ask support for their programs while the Representatives and the Senators try to balance the demands and seek justification for the appropriation.

The self-interest motive, which has a legitimate role and a rightful involvement in the American decision-making process, is another factor that affects decisions on foreign aid. Testimonies before Congress Subcommittees stress what every student of American politics understands. Americans are ready to support a variety of initiatives when they are convinced that these initiatives, either foreign or domestic, eventually, contribute to their own well-being.

It is obvious, therefore, that calls to link development of LDCs with economic growth at home are supported by a broad coalition of policy-makers and interest groups.⁵

Four phases can be identified in the process of appropriating foreign aid:

- * Setting goals and preferences, rank-ordering the prospective recipient countries according to foreign-affairs priorities.
- * Administering the budgetary procedure of appropriating while balancing between the federal budget limitations and the administration's demands.
- * Appropriating funds for military, political, humanitarian, and economic bilateral aid and for international institutions.
- * Evaluating aid activities (policy actions) and their degree of success in meeting the policy objectives (policy outcomes).

These four decision-making dilemmas which characterize foreign aid policy, are common to many budgetary issues. Their resolution is influenced by domestic and foreign events, so that ongoing attention and follow-up are required (Wildavsky, 1984).

⁵. Lindner (1993: 391-393)

c. Foreign Aid - a Combination of Political, Economic and Social Elements

In the past, Americans perceived foreign aid as a vehicle for promoting political and economic objectives. But, in fact, most of aid activities, in the national level, are not evaluated by measuring the recipient's economic growth, they relate merely to specific project. A.I.D. officials, like other bureaucrats, tend to describe their achievements in qualitative manner. Terms such as "low," "high," "remarkable" or "tremendous" are common in the aid jargon. Policy-makers, who have to justify the policy before their constituent, and are required to express it in understandable terms call to evaluate aid policy by a more substantive measures.⁶ Atwood, the new administrator of A.I.D. agrees with this demand when he states "we are to shift the focus of the Agency to measuring results." This dissertation joins these calls and proposes to evaluate end results of aid policy in quantitative terms, such as GNP per capita. Similar ideas are expressed by representatives of NGOs who appear in Congress.⁷

⁶. Senators Leahy, Sarbanes and Representative Lee Hamilton (see Senate and House Hearing on foreign aid appropriations, FY 94).

⁷. See testimonies before the House Committee on Foreign Affairs and the Senate Subcommittees on Foreign Relations and Appropriations on FY 1994 Foreign Assistance Legislation, published in the Senate Hearings, 103 Congress.

Recipients, however, judged aid policy according to its impact on their economy and on other domestic sectors, such as health, education etc. Another effect of aid is its influence on the moral system of the recipient ruling establishment. Whether the assistance is humanitarian, economic or military, it enables indigenous public and private groups to benefit, directly or indirectly, from extra means. Thus, an external flow of funds, originally designated to improve the living conditions and the development of a whole population, has become a source of wealth and power for small ruling elites. Interest groups and political establishments sought, therefore, the continuation of aid for assisting them to control national affairs while enabling them to maintain their own wealth. In this way, foreign aid policy which originally comprises political and economic elements, sometimes contains dangerous misuse of monies and corruption.

d. **Foreign Aid Perceived Differently by Donors and Recipients**

Since foreign aid activity is intertwined with other socio-economic factors (such as population policy), it is quite difficult to identify concrete effects of this policy. In the past, donor politicians, when evaluating foreign aid, sought political and military achievements, in addition to economic effects. The providers tended, and still tend to

see foreign aid as a policy action in a context of political actions designed to promote the global interest of the donor (Presidents Truman, Kennedy, Reagan). At present, the change in world politics causes Americans (Bissell, 1993; Sewell, 1993) to change their attitude toward foreign aid as they pursue other non-military objectives for justifying foreign aid.

LDCs, on the other hand, see foreign aid first and foremost as an instrument for improving their living conditions and accelerating their development (Cook, 1989: 203; Lawrence, 1989: 243). They attempt to steer aid policy in accordance with their own needs while political and military alliances with the U.S. play only a secondary role in assessing the policy. Thus, success or failure of aid policy must be determined by considering the needs and perceptions of both donors and recipients.

3. The Scope of Foreign Aid

Although foreign aid policy was articulated in the early days of the Republic, this dissertation explores the background, the rationale and the theories that conceived modern foreign aid in the aftermath of World War II. During those early days (1946-1952), foreign aid was provided mainly to Western Europe and Japan through the post-war relief funds and the Marshall Plan. The Marshall Plan has focused on financial assistance because the recipients were

mostly industrialized nations that suffered temporary economic hardships. Unfortunately, this finance-oriented perspective of foreign aid continued to influence policy makers in the 1950s, when aid operations were shifted to LDCs.

The creation of the Agency for International Development (USAID) in 1961, enabled the United States to link some of its normative values with the Third World's prosperity and security.⁸

From the end of World War II through 1990, the United States spent \$374 billion in various forms of foreign aid, delivered to over 150 countries (see Table 6.1). Of this total, \$277 billion were given as grants and \$97 billion as loans. About two thirds of the total, \$233 billion, were delivered as non-military aid to more than 140 countries. The rest, \$141 billion, was designated as military aid to support America's anti-communist allies, from whom the U.S. sought collaboration.⁹

⁸. The Agency for International Development (A.I.D.) was established in 1961 by the Foreign Assistance Act (Public Law 87-195), and was designed to consolidate federal development efforts and various foreign assistance programs, so that they would comply with America's global considerations.

⁹. USAID and the US Statistical Abstracts publish data on foreign aid in current dollars. We follow this practice and use current dollars in all our tables, since these values satisfy the need to identify trends and comparing

Table 6.1: U.S. Overseas Military and Non-Military Loans, and Grants, Summary for all Countries, 1946-1990
(billions of current dollars)

| | Post-War Relief Period 1946-48 | Marshall Plan Period 1949-52 | Mutual Security Act Period 1953-61 | Foreign Assist. Act Period 1962-90 | Total Loans and Grants 1946-90 |
|--------------------------------------|---|---------------------------------------|--|--|--|
| I. ECON. Assistance | | | | | |
| Total | 12.5 | 18.6 | 24.0 | 185.4 | 233.0 |
| Loans | 6.0 | 2.5 | 5.8 | 47.5 | 56.4 |
| Grants | 6.5 | 16.1 | 18.2 | 137.9 | 176.6 |
| II. MIL. Assistance | | | | | |
| Total | 0.5 | 10.1 | 19.3 | 108.6 | 141.1 |
| Loans | - | - | 0.2 | 38.1 | 41.0 |
| Grants | 0.5 | 10.1 | 19.1 | 70.5 | 100.1 |
| III. ECON. & MIL. Assist. | | | | | |
| Total | 13.0 | 28.7 | 43.3 | 294.0 | 374.1 |
| Loans | 6.0 | 2.5 | 6.0 | 85.6 | 97.4 |
| Grants | 7.0 | 26.2 | 37.3 | 208.4 | 276.7 |

Source: USAID, 1992: U.S. Overseas Loans and Grants

changes over time. Constant values are needed for preparing feasibility reports or for conducting an economic analysis of specific programs or projects.

B. Economic Assistance from Other Donors

Many Americans complain on the magnitude of foreign aid without knowing that the U.S. share of the international assistance is relatively small.¹⁰ A brief description of other bilateral and multilateral aid activities, presented below, is helpful for clarifying this issue. Figures in Table 5.2 indicate that although the U.S. is the provider of the largest amount of aid, other wealthy nations contribute also substantial sums for this purpose. These nations are members of the Development Assistance Committee (DAC), which coordinates most bilateral aid activities. In 1990, for example, the amount of Official Development Assistance (ODA) provided by all the DAC nations totaled \$54.4 billion while the U.S. donated \$10.1 billion. However, measuring the donation as part of the GNP (ODA/GNP Ratio) and on a per capita basis indicates that in 1990, the U.S. donated the smallest percentage (0.19%) and the smallest amount (\$31 per capita) as compared with other donors (see Table 6.2).

¹⁰. The small percentage of foreign aid of U.S. GNP is addressed also by a recent assessment of this issue in a CBO (1994) study on "Enhancing U.S. Security Through Foreign Aid."

Table 6.2: Amount of Official Development Assistance (ODA)
Provided by DAC Members, 1990

| DAC Member | Millions of Dollars | ODA/GNP Ratio (%) | ODA Amount per capita(\$) |
|----------------|------------------------|----------------------|------------------------------|
| United States | 10,166 | 0.19 | 30.8 |
| Japan | 9,069 | 0.31 | 72.8 |
| France | 6,571 | 0.55 | 91.9 |
| Germany | 6,330 | 0.42 | 79.8 |
| Italy | 3,395 | 0.32 | 62.8 |
| United Kingdom | 2,647 | 0.28 | 45.2 |
| Netherlands | 2,592 | 0.94 | 141.0 |
| Canada | 2,470 | 0.44 | 88.4 |
| Sweden | 2,012 | 0.90 | 213.2 |
| Norway | 1,207 | 1.17 | 216.9 |
| Denmark | 1,171 | 0.93 | 182.6 |
| Australia | 955 | 0.34 | 60.7 |
| Belgium | 891 | 0.45 | 71.0 |
| Finland | 846 | 0.63 | 142.3 |
| Switzerland | 750 | 0.31 | 83.0 |
| Austria | 389 | 0.25 | 37.1 |
| New Zealand | 93 | 0.22 | 26.1 |
| Ireland | 56 | 0.16 | 13.9 |
| DAC Total | 54.420 | 0.35 | 65.2 |

Source: 1990 DAC Chairman's Report

1. Japan's Official Development Assistance (ODA)

Additional comprehension of the issue may be obtained from a brief examination of Japan's foreign aid policy.

Japan has been selected because:

- * It has no colonial obligations as did Britain and France;
- * Its assistance to LDCs might be motivated merely by economic and commercial interests; and
- * During the last decade Japan has become the second largest single provider of assistance to LDCs.

Japan's ODA rose from \$1.4 billion in 1977 to \$3.3 billion in 1980 and \$9.2 billion in 1990 (see Table 6.3). This remarkable increase of aid amounts stemmed from Japan's reassessment of its foreign policy and the wish to use its economic and technological resources and its own experience as a basis for enhancing its involvement in world politics. Prime Minister Kaifu clarified, in March 1990, his perspective on the new international order in which Japan intends to take a more active role.¹¹

¹¹. Prime Minister Kaifu in a political speech said: "The new international order that we are seeking must first of all guarantee peace and security. Second, there must be respect for freedom and democracy. Third, we must work to achieve world prosperity under an open, market-oriented economy. Fourth, we must create an environment in which people can enjoy human living conditions. Fifth, we must establish stable international relations based on dialogue and harmony" (Japan Aid in the 1990s, 1991: 3). It seems that many Americans, policy-makers and common people, will agree to adopt Kaifu's five point statement as a proclamation of American policy in the international arena.

**Table 6.3: Total ODA Performance of Major DAC Members,
1980-1990 (billions of current dollars)**

| Country | 1980 | | 1990 | |
|---------|------|------|------|------|
| | Sum | Rank | Sum | Rank |
| US | 7.1 | 1 | 10.2 | 1 |
| Japan | 3.3 | 4 | 9.2 | 2 |
| France | 4.2 | 2 | 6.6 | 3 |
| Germany | 3.6 | 3 | 6.3 | 4 |
| Italy | 0.7 | 7 | 3.4 | 5 |
| UK | 1.9 | 5 | 2.6 | 6 |
| Canada | 1.1 | 6 | 2.5 | 7 |

Source: Japan Aid in the 1990s, 1991 p.13

Although Japan increased its ODA disbursements significantly, they were still relatively smaller than contributions of other DAC countries. Japan ODA In 1990 was equivalent to 0.31% of its GNP as compared with the DAC average of 0.35%, On a per capita basis, Japan donated \$72.8 in 1990; the DAC average was \$65.2, and the US contribution was \$30.8 (see Table 6.2). Contrary to general perceptions, in the late 1980s, about 75% of Japan's ODA was not tied to Japanese suppliers whereas America provided only 30-35% of its total as untied aid (Japan Aid in the 1990s, 1991).

2. Multilateral Assistance or Aid from International Organizations

The controversy on the nature and advantages of bilateral and multilateral forms of assistance has continued almost from the very beginning of aid activity. Advocates of the provision of aid by international organizations claim that the "political element in aid can be reduced, and the economic increased, by giving such aid multilaterally, rather than bilaterally" (Kindleberger, 1970: 141). The assumed advantage of multilateral aid has also been recognized by three official committees, appointed by US presidents: The Draper Commission (under Eisenhower) in 1959, the Clay Commission (under Kennedy) in 1963, and the

Peterson Commission (under Nixon) in 1970. All proposed to shift aid effort away from bilateral toward multilateral aid.¹² Recent advocates for multilateral aid support their argument by showing the benefits the U.S. derives from investing in international financing institutions.¹³ Recipients also prefer to receive multilateral aid because it frees them of any political obligation to a specific donor (Blake & Walters 1976: 139-142). Since the early 1970s multilateral assistance to LDCs, comprising transfer of concessional and commercial capital from international institutions, such as the World Bank and the International Monetary Fund (IMF) became an important vehicle for financing development. During the examined period assistance from international organizations totaled \$370.0 billion dollars, \$4 billion short of American aid delivered during the same period.¹⁴

¹². For a more detailed discussion on these reports see Lockwood (1990) and Wallace (1984).

¹³. Testimony of Secretary of Treasury, Lloyd Bentson (1993) before the Senate Subcommittee on Foreign Aid Appropriations.

¹⁴. Here also the data is presented in current values, as it is published by USAID. Since we don't examine the profitability of the international investments and we don't question the economic justification for the assistance, we don't need to use constant values in order to comprehend international assistance.

Table 6.4: Assistance from International Organizations, by Donor 1946-1990 (millions of current dollars)

| | 1946- 1952 | 1953- 1961 | 1962- 1982 | 1983- 1990 | Total |
|------------------------------------|---------------|---------------|---------------|---------------|---------|
| TOTAL | 1,348 | 5,071 | 149,152 | 220,644 | 369,796 |
| Donor | | | | | |
| World Bank Group - 70.0% | | | | | 258,604 |
| IBRD | 1,343 | 4,253 | 72,873 | 107,542 | 186,011 |
| IFC | - | 42 | 4,488 | 9,660 | 14,190 |
| IDA | - | 99 | 26,943 | 31,361 | 58,403 |
| Regional Development Banks - 24.5% | | | | | 90,731 |
| IDB | - | 61 | 20,804 | 24,691 | 45,495 |
| ADB | - | - | 10,309 | 19,935 | 30,244 |
| AFDB | - | - | 2,020 | 12,972 | 14,992 |
| United Nations Group - 3.3% | | | | | 12,219 |
| UNDP | 5 | 329 | 4,899 | 3,042 | 8,275 |
| OTHER UN | - | 98 | 2,384 | 1,462 | 3,944 |
| European Group - 2.2% | | | | | 8,239 |
| EEC | - | 188 | 4,432 | 3,619 | 8,239 |

Assistance per average year

| | | | | | |
|--------------|-----|-----|------|--------|-------|
| No. of years | 7 | 9 | 21 | 8 | 45 |
| Amount | 193 | 563 | 7102 | 27,580 | 8,217 |

IBRD - International Bank for Reconstruction and Development
IFC - International Finance Corporation
IDA - International Development Association
IDB - Inter-American Development Bank
ADB - Asian Development Bank
AFDB - African Development Bank
UNDP - United Nations Development Program
EEC - European Economic Community

Source: US Overseas Loans and Grants, Cong-R-0105

The data in Table 6.4 show that most of the aid, \$363 billions, was delivered after 1962. About \$258.6 billions, 70% of the total, were provided by the World Bank Group (IBRD, IDA, & IFC); \$90.7 billions (24.5%) were provided by regional development banks (ADB, AFDB, IDB); \$12.2 billions (3.3%) by the United Nations and the rest, \$8.2 billions (2.2%), by the EEC.

Five advantages of multilateral aid, listed by Wall (1972), were quoted by Lockwood (1990):

- (1) freedom from prejudiced control by individual donor;
- (2) removal from the vagaries of domestic political issues in donor countries;
- (3) increased acceptability to recipients;
- (4) sound, commonly accepted, and well-known criteria for its allocation; and
- (5) efficient supervision.

Whether these advantages really play an important role and what is the extent of their influence on the recipient's achievement are legitimate questions for further investigation. This study investigates the involvement of multilateral aid as another component of external aid and assesses it as a public issue. We do not evaluate success or failure of any particular program in any specific country. The findings of the examination later enables the above five advantages and their effect on recipients to be addressed, however.

C. International Trade Arrangements

"Trade issues have figured prominently in political controversies between less developed countries and rich states, between East and West, and among the United States, Europe and Japan."

Blake & Walters, 1976: 11

"Postwar [WW II] commercial policy in the United States has been characterized both by major compromises between the political forces favoring trade liberalization versus protectionism and by significant shifts in the congressional voting patterns."

Robert E. Baldwin, 1976

In the first postwar decade the volume of foreign trade and its importance for U.S. economy were relatively small. Annual exports in the early 1950s averaged \$15.0 billion; they rose to \$17.0 billion toward the late 1950s. Imports were even smaller, in the order of \$10.0 billion a year. In the 1960s President Kennedy was willing to enhance American involvement in world affairs, in both the aid and trade areas. America's foreign trade policy in the 1970s has been influenced by two political economy processes:

a. The process of negotiations between U.S. trade officials and external groups: LDCs, international trade companies, producers of raw materials and U.N. agencies. The debate revolves around LDCs' desire to maintain cartel and quota systems for primary products, similar to the OPEC cartel. The proponents of this desire (the protectionists) claimed that such a system provides a sound response and an adequate

protection against the damage cause to the LDCs by the declining terms of trade. This strategy, its implications and corrective proposals were adopted by the United Nations in the 1970s with the proclamation of the New International Economic Order (NIEO). However, the challenge to Liberal economic principles, which stemmed from the Dependency theory, antagonized liberalized trade, contradicted the implementation of tax-reduction measures and did not persist for long. The calls for a NIEO and a new international trading policy, which reflected a "sensitive" issue and expressed "attitudes [that] have their roots in perceived historical injustices," failed to resist the market forces. Within a few years, the political restrictions on free trading lost most of their effect and U.S. official policy of endorsing free trade, has generated more understanding and more supporters (Blake & Walters, 1976; Corden, 1981).¹⁵

b. The second process which comprised internal negotiations among branches of government, political powers and domestic interest groups, PVOs and NGOs. This internal debate pertained to the difference between supporters of protectionism and advocates of trade liberalization. In many cases, organized labor and associations of

¹⁵. It seems that at present, the old rule which teaches that prosperity springs mostly from trading and not merely from manufacturing, works here also.

manufacturers joined together against trade policies which they perceived to be too liberal. Import restrictions and quota systems became legitimate instruments for regulating foreign trade (Baldwin, 1981: 64-77).

In sum, the dispute between the holders of the liberal and the protectionist (or nationalist) perspectives has featured in the background of American trade policy since the postwar period. This debate continues at present, when problems of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the GATT rules have arisen and become salient issues on the national trade agenda.¹⁶ Words written 15 years ago on the importance of trade to America's economy epitomize the current situation.¹⁷ However, in the mid 1980s, the complexity of contemporary political economy relations and the linkage between internal concerns and external obligations caused liberal ideas to merge with protectionist practices, creating the "New Protectionism." Whereas the liberal perspective still guides most international trade arrangements, "New

¹⁶. See the "Uruguay Round," 1994 by the U.S. Trade Representative in Washington, DC.

¹⁷. "At a time when America's trade is becoming increasingly important to its overall economic well being, its loss of economic preeminence relative to that during the immediate postwar [WW II] period makes it increasingly more difficult for the United States to shape international trade conformity with its particular economic and political interests" (Blake & Walters, 1976: 11).

Protectionism, economic regionalism and illiberal domestic structures" have gained more influence on the international arena. At present a highly ambiguous situation exists in which trade liberalization and economic protectionism are often mixed. Four major trends were identified by the U.N. as influencing world trade at present:

- a) Protectionist tendencies in individual countries;
- b) Calls for "managed trade" or "result-oriented" policy;
- c) Tendencies to "substitute unilateral action by multilateral approaches" for resolving trade problems;
- d) an "increased resort to bilateral and regional trade arrangements" (1991: 219).

Although these general observations fairly represent America's current international trade activity, the volume of U.S. imports and exports continued to grow in the 1990s. Figure 6.1 illustrates the increase of U.S. foreign trade during the period examined. The data reported in Table 6.5 show the expansion of American foreign trade from 1960 to 1990. Whereas U.S. **exports** grew **20-fold**, from \$20.6 in 1960, to \$394.0 billion in 1990; **imports** grew **33-fold**, from \$14.6 billion in 1960, to \$495.0 billion in 1990. The **trade balance** grew during that period negatively **15-fold**, from \$6 billion in 1960 to -\$101 billion in 1990. However, LDCs' share of American trade, both export and import, remained steady over the whole period (30-40%).

Table 6.5: US Exports and Imports of Merchandise, by Group of Nations, 1960-1990 (billions of dollars and %)

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 |
|----------------------------|-------------|-------------|-------------|--------------|--------------|---------------|---------------|
| Exports | | | | | | | |
| Total | 20.6 | 27.5 | 43.2 | 107.6 | 220.8 | 213.1 | 394.0 |
| LDCs | 7.3 | 9.2 | 13.3 | 42.8 | 90.0 | 79.1 | 137.1 |
| % of Total | 35 | 33 | 31 | 40 | 41 | 37 | 35 |
| Developed Countries | | | | | | | |
| | 13.3 | 18.3 | 29.9 | 64.8 | 130.8 | 134.0 | 256.9 |
| Imports | | | | | | | |
| Total | 14.6 | 21.4 | 40.0 | 96.9 | 244.9 | 345.3 | 495.0 |
| LDCs | 6.0 | 7.3 | 10.7 | 40.2 | 119.6 | 122.0 | 197.7 |
| % of Total | 41 | 36 | 27 | 41 | 49 | 35 | 40 |
| Developed Countries | | | | | | | |
| | 8.6 | 14.1 | 29.3 | 56.7 | 125.3 | 223.3 | 297.3 |
| Balance of Trade | | | | | | | |
| Total | 6.0 | 6.1 | 3.2 | 10.7 | -24.1 | -132.2 | -101.0 |
| LDCs | 1.3 | 1.9 | 2.6 | 2.6 | -29.6 | -42.9 | -60.6 |
| Developed Countries | 4.7 | 4.2 | 0.6 | 8.1 | 5.5 | -89.3 | -40.4 |

Source: U.S. Statistical Abstracts, Exports and Imports

Figure 6.1: US Exports & Imports
1960-1990

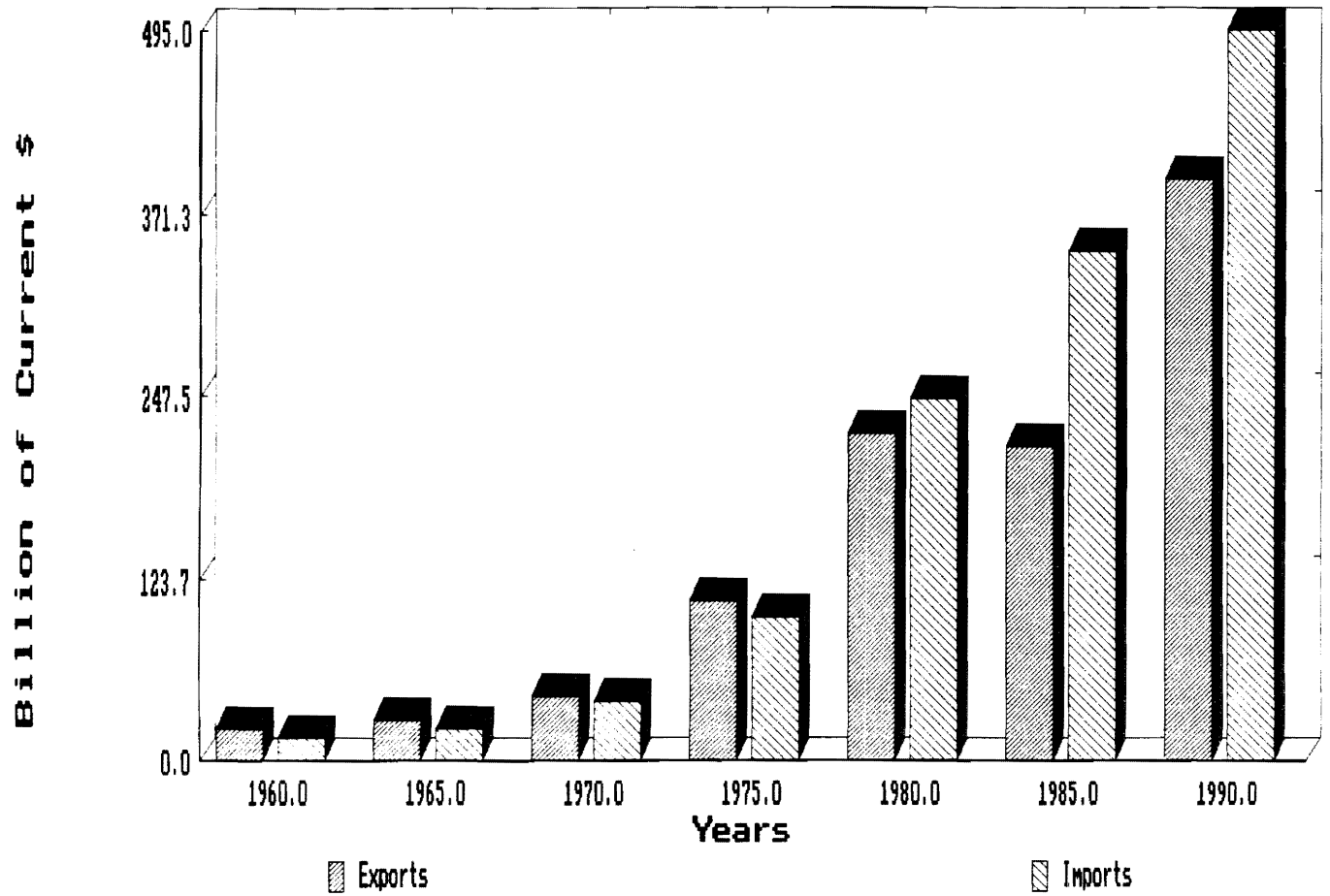


Figure 6.1: U.S. Exports and Imports, 1960-1990

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D. Development and Economic Growth

"Development is the most pressing challenge facing the human race. Despite the enormous opportunities created by the advances in technology, more than 1 billion people, one-fifth of the world's population, live on less than US\$1 a day, a standard of living that the United States and Europe attained two centuries ago."
Lawrence Summers & Vinod Thomas, 1993

"Development should be understood as a broad umbrella concept that denotes a complex set of interactive process."
Bruce Moon, 1991

Development, that is economic growth of LDCs are discussed here because they are among the salient objectives of foreign aid policy and they can be used for evaluating the effectiveness of aid strategies.

During the 1950s, development was considered to be practically equivalent to economic growth. Most development theories were proposed by economists such as John Galbraith who claimed that the goal of development is a "maximized economic growth" (1964: 5). Others perceived the elevation of people's standard of living as a target important enough and, therefore, a legitimate objective of development policy. They believed that a rapid economic growth reduces and eliminates poverty (Myrdal, 1957; Nurska, 1953 ;Rostow, 1960). A pivotal statement on this issue was the 1973 speech of Robert McNamara, then the president of the World Bank, in which he called for the alleviation of absolute

poverty.¹⁸ In that speech he expanded the meaning of poverty beyond the pure economic definition based on income.¹⁹ Thus, satisfying basic human needs became an official ingredient of development policy of most of the international organizations.²⁰ For addressing the normative and qualitative elements that were incorporated in the old definition of development, and for evaluating their effect on economic growth, additional measures were needed. The World Bank and the U.N. prepared and introduced for that purpose some social measurements such as life expectancy, infant mortality, illiteracy rate. Additionally, a new composite "human development index" (HDI) was created. (Kennedy, 1993: 351).²¹ However, we prefer to use the GNP

¹⁸. Moon (1991) notes that elevating the living standards of the poor is motivated by three considerations: (a) a normative approach, focused on humanistic and moral imperatives, (b) a "welfare-centric approach," that directs attention to the processes that make individuals poor; and (c) the lack of other alternatives to eliminate poverty (p.5).

¹⁹. McNamara defined poverty as "a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities"(1973: 6-7).

²⁰. Another "concept of development" is proposed by Wunsch and Olowu who view development as a state in which "people must be able to relate with confidence to many more people and in many more roles than are required by smaller, simpler and less ambitious economies, societies and polities" (1992: 8).

²¹. Another method of assessment was designed to answer questions such as "In what kinds of economies, societies, and polities are basic needs most effectively met?" For

per capita, one of the instruments commonly used for measuring economic progress, as the primary inquiry instrument for measuring development. The GNP-per-capita tool enables us to use international statistics for comparing regions, groups of nations and individual countries, and to assess relative fluctuations over time, as is demonstrated in Table 6.6.²² This measure, which is based on economic indicators, enables to conduct historical and cross-national comparisons. Although the GNP per capita does not represent all aspects of economic life, such as indebtedness or distribution of wealth, it is still the most popular and reliable measure for examining growth. From the GNP-per-capita data in Table 6.6 one can see that from 1970 to 1990 the Middle East and North Africa was the fast growing region (587%), owing to the oil boom in the early 1970s. East Asia and the Pacific was the second in growth (454%) while Sub-Saharan Africa was the last (213%). During the said period, High-Income Economies rose faster (650%) than the Middle- (471%) and the Low-Income Economies(298%).

measuring the attainment of this goal the Physical Quality of Life Index (PQLI) was created by M.D.Morris (1979, quoted by Moon, 1991).

²². International statistics on GNP per capita are published by the World Bank in the World Tables. These GNP per capita data are presented in US current dollars in order to facilitate executing a comparison between various countries with different local currencies and different rates of inflation.

Table 6.6: Economic Growth (GNP per capita) by Regions and Income Groups, 1970-1990 (US dollars)

| | 1970 | 1975 | 1980 | 1985 | 1990 | % of Change |
|-----------------------|------|------|-------|-------|-------|-------------|
| Regions: | | | | | | |
| South Asia | 110 | 160 | 230 | 280 | 330 | 300% |
| Sub-Saharan Africa | 160 | 290 | 540 | 450 | 340 | 213% |
| East Asia & Pacific | 130 | 210 | 390 | 440 | 590 | 454% |
| L.America & Caribbean | 600 | 1120 | 1920 | 1730 | 2140 | 357% |
| M.East & N.Africa | 310 | 850 | 1900 | 2340 | 1820 | 587% |
| Income Groups: | | | | | | |
| L.-Income Africa | 150 | 260 | 490 | 410 | 260 | 173% |
| L.-Income Econ. | 120 | 190 | 310 | 330 | 350 | 292% |
| M.-Income Econ. | 490 | 1020 | 1900 | 1930 | 2310 | 471% |
| H.-Income Econ. | 3040 | 5550 | 10170 | 11560 | 19760 | 650% |
| OECD members | 3110 | 5680 | 10400 | 11830 | 20250 | 651% |
| Japan | 1950 | 4530 | 9830 | 11350 | 25890 | 1327% |
| United States | 4970 | 7400 | 11990 | 16790 | 21790 | 438% |
| World | 840 | 1470 | 2590 | 2780 | 4210 | 501% |

Source: World Tables 1990-91

E. The Less Developed Countries (LDCs)

Many terms are used in the literature to denote the LDCs. Among them are: Underdeveloped, Undeveloped, and Developing Countries, the South, the Periphery and the Third World. It seems that a term is selected mostly to suit the writer's convenience. In this work, LDC is the preferred term, but sometimes others are used as synonyms. A more serious doubt is raised concerning the validity of regarding all the LDCs as a coherent group, especially when this group is described as the Third World. The collapse of the Communism and the ending of the Cold War raise questions regarding the justification for this term. On the other hand the differentiation among the LDCs themselves makes the old classification "misleading" (Kennedy 1993) and perhaps meaningless. Thus, for better analyzing the global political economy of the future a new classification method is needed. The World Bank usually categorizes the LDCs by their GNP per capita. A more updated method, proposed by John Ravenhill (1990), categorizes LDCs by key variables and combines GNP per capita with other four variables:

- a) The percentage of manufactured goods in total exports;
- b) The capacity and strength of the state apparatus;
- c) GNP per capita; and
- d) The extent of indebtedness.

Based on the above variables, Ravenhill proposes a

five-way typology of the LDCs:

1. High-Income Oil Exporting Countries (HIOEC).
2. Industrializing Economies with Effectual Political system and Low Debt levels (IEEPLD).
3. Industrializing Economies with Ineffectual Political system and High Debt problems (IEIPHD).
4. Potential Newly Industrializing Countries (PNIC).
5. Primary Commodity Exporters (PCE).

Russia, China and India should be regarded as a separate category because of their size and population.

Although the involvement of LDCs in global political economy endeavors can be better described and understood by using Ravenhill's classification (Kennedy 1993), there are difficulties in adopting it because of the problematic nature of Ravenhill's second variable (the capacity and strength of the state apparatus). It is complicated to set criteria for determining the capacity of a state apparatus and its strength can only roughly be evaluated. The other three variables (% of manufacturers, GNP per capita and indebtedness) can be measured quantitatively and, therefore, are more useful.

To overcome this hurdle we propose to build a simpler model of classifying LDCs. We modify Ravenhill's apparatus variable and propose to replace it by the "State" component (Democracy and Government Competence elements) of the "State - Market Matrix" discussed in the next chapter. Although

democracy and government competence can not be measured precisely they can be determined relatively by using an elimination technique. If, for example, full-fledged Western nations hold the highest position in both democracy and competence, and poor and fragile nations, such as Somalia or Afghanistan, hold the lowest one, than the remaining nations can be ranked between those two poles. Government competence can be determined by combining social indicators on health, education and welfare with economic indicators on income distribution. These indicators are quantitatively calculated and periodically published by the United Nations, the World Bank and other international institutions.

A detailed discussion on the Political Economy Model of "State" and "Market" relationships was developed in the previous chapter, Chapter Five. Based on this "State-Market Matrix," the countries examined are categorized by their political-economic regime (Chapter Seven, Section D and Figure 7.1). Such a classification method provides a handy tool for addressing and assessing the direction and the intensity of LDCs' development. By combining the political measures of the matrix with the simplicity of the GNP-per-capita we can provide a more accurate description and some forecast on the effect of aid and trade on economic growth.

Chapter Seven: Data Collection and Analysis

A. Practices of Selecting the Study's Subjects

The selection of the LDCs, candidate for the study, was conducted as part of the data collection process. The subject countries were selected by an elimination procedure based on the "Aid-Trade Matrix." The selection process employed two criteria: 1) the amount of U.S. aid (military and non-military) delivered; and 2) the value of U.S. exports to, and imports from a given candidate, and was carried out in seven steps:

- (1) Gathering and processing quantitative historical data on regional distribution of U.S. aid for the 1946-1990 period. The data, presented in Table 7.1, were gathered, organized and classified by:
 - * Region (i)Near East; (ii)South Asia; (iii)East Asia; (iv)Africa; (v)Latin America; (vi)Europe; and (vii)Oceania.¹
 - * Type and form of aid (military or non-military, loans or grants);
- (2) Collecting data on regional distribution of assistance given by international institutions for the 1946-1990 period. These data are presented in Table 7.2
- (3) Short-listed aid recipients by excluding regions not examined in this research (Latin America, Europe and Oceania).
- (4) Compiling the final list of aid recipients to be examined, as listed in Tables 7.3 and 7.4.

¹. The regional classification of aid recipients in this study is based on the classification used by USAID in its annual publications of "U.S. Overseas Loans and Grants, Cong-R-01-05."

- (5) Compiling trade records (value of merchandise imported and exported annually from and to the U.S. by aid recipients. The data on the major trading partners is presented in Tables 7.5 and 7.6
- (6) Consultation with USAID experts and other trade specialists on the rationale for selecting the final subjects for the study.
- (7) Categorizing the aid recipients and U.S. trading partners by their position on the "State-Market Matrix" as is presented in Figure 7.1.

B. The Examined Group as a Representative of other LCDs

This dissertation examines American aid and trade policies in four geographic regions (Africa, East Asia, the Middle East and South Asia) and reflects the impact of these policies on a group of fifteen nations. The group is representative because of the following reasons:

- * The regions under examination received 66.4% of the total amount of American aid and encompass most of the basic problems of foreign aid, see Table 7.1;
- * The regions under examination received 63% of the total amount of Multilateral aid and encompass most of the key problems of multilateral assistance, see Table 7.2;
- * The regions under examination include the region that received the largest amount of aid -- the Middle East, the poorest region -- Africa, and the fastest growing one -- South East Asia.
- * The regions under examination include all the top aid recipients, see Tables 7.3 and 7.4
- * The data on American exports to, and imports from LDCs include U.S. largest trading partners (S. Korea and Taiwan) and encompass 58% of the total exports to, and 65% of the total imports from LDCs. See Tables 7.5 and 7.6.

- * The data on GNP per capita include poor economies and fast growing ones, the largest populated nation and the smallest one. See Table 7.7.

The results on the four regions examined, forms a basis for understanding the general patterns of LDCs' political economic behavior. Conclusions drawn from the findings are particularly relevant to LDCs in Africa, East Asia, the Middle East and South Asia. Conclusions relevant to LDCs in other regions can be drawn only after further investigation.

C. Discussion of the Aid Data

1. Regional Distribution of American Bilateral Aid During the Cold War, 1946-1990

Foreign aid is an integral component of foreign policy and, therefore, the amount of aid delivered either to a single nation or to a group of nations in one region, is correlated with the political importance of a country or a region to the donor. The regional distribution of U.S. aid (see Table 7.1) reflects the priorities of America's regional interests:

- * The Middle East, that was a very important region for U.S. global strategy, received the largest amount of American bilateral assistance (\$128.0 billion, or 33.4% of the total) during the Cold War.

Military aid to countries in that region, totaled \$77.2 billion, was the largest single item among all aid programs. The magnitude of the aid indicates particularly the American peace-keeping obligations (aid to Israel and Egypt) and defense measures prepared against the former Soviet Union (aid to Turkey).

- * The second largest recipient of American aid was East Asia, a region that received large amounts of military assistance during the Vietnam War period.
- * The smaller amounts of aid delivered to South Asia and Africa (mostly economic aid) reflect the lower priority given by the U.S. to these regions.²

2. Regional Distribution of Multilateral Assistance

Since the 1970s, multilateral assistance measured by the transfer of concessional and commercial resources from international institutions³ to LDCs, became an important vehicle for financing development. The multilateral aid totaled \$370.0 billion dollars, \$4 billion short of U.S. aid delivered during the same period.⁴ Some 150 countries

². The table below compares regional distribution of American aid with other donors in 1991. It show that Japan directed most of its aid to East Asia, other donors concentrated on Sub-Saharan Africa, while the U.S. directed most of its aid to the Middle East:

| | <u>% of Aid</u> | <u>The Preferred Region</u> |
|---------|-----------------|-----------------------------|
| Canada | 55% | Sub-Saharan Africa |
| Germany | 45% | Sub-Saharan Africa |
| Japan | 55% | East Asia |
| Sweden | 60% | Sub-Saharan Africa |
| U.K. | 45% | Sub-Saharan Africa |
| U.S. | 60% | Middle East |

Source: Com. on the Management. of A.I.D. Programs 1992: 15

³. such as the World Bank, the International Monetary Fund (IMF), etc.

⁴. About 70% of the multilateral assistance (\$258.6 billions) was provided by the World Bank Group (IBRD, IDA, and IFC), 24.5% (\$90.7 billions) by regional development banks (ADB, AFDB, IDB), 3.3% (\$12.2 billion) the United Nations and the remaining 2.2% (\$8.2 billions) was donated by the EEC.

received multilateral aid, but it was unevenly distributed. One country, India, received 10% of the total, another 30 countries received another 70% of the sum and the remaining 115 countries received only 20%. From the data in Table 7.2 it appears that:

- * The regional distribution of multilateral aid differs from the distribution of American bilateral aid.

Although multilateral aid is somehow freed from "the vagaries of domestic political issues" its provision still depends on decisions made by the donors. World Bank officials claim that their primary concern is the well-being of the LDCs.⁵ Others argue that the World Bank, practically, acts according to the interests of its owners, the large industrialized donors.⁶

- * Latin America received the largest assistance from international organizations -- 31% of the total (\$116.0 billion).

The regions examined by this study rank after it: **Africa is second**, with \$70.9 billion (19%), **East Asia third**, with \$70.6 billion (19%), **South Asia fourth**, with \$65.9 billion (18%) and **the Near East** with \$25.4 billion (7%) is listed as **fifth**.

The data collected lead to the conclusion that:

- * No evidence was found to indicate that multilateral aid works better for the recipient than bilateral aid.

⁵. Summer and Thomas (1993)

⁶. Blackwelder, 1993; Rich, 1993; Wallace, 1993.

Table 7.1: American Aid, by Form and Region, 1946-1990
(billions of current dollars)

| | Loans | Grants | Mil. Aid | Econ.Aid | Total |
|---|-------------|--------------|--------------|--------------|--------------|
| | ---- | ---- | ---- | ---- | ---- |
| <u>Aid to regions under examination:</u> | | | | | |
| Near East | 46.7 | 81.3 | 77.2 | 50.8 | 128.0 |
| East Asia | 12.1 | 58.8 | 39.8 | 31.1 | 70.9 |
| South Asia | 14.7 | 12.0 | 3.1 | 23.6 | 26.7 |
| Africa | 6.7 | 16.2 | 3.8 | 19.1 | 22.9 |
| | ---- | ---- | ---- | ---- | ---- |
| Subtotal | 80.2 | 168.3 | 123.9 | 124.6 | 248.5 |
| | ---- | ---- | ---- | ---- | ---- |
| % of Total | 82.4% | 60.8% | 87.9% | 53.5% | 66.4% |
| <u>Aid to regions not examined:</u> | | | | | |
| Europe | 5.1 | 27.5 | 8.0 | 24.6 | 32.6 |
| L.America | 11.6 | 18.0 | 4.3 | 25.3 | 29.6 |
| Oceania & Other | 0.2 | 1.1 | 0.1 | 1.2 | 1.3 |
| | ---- | ---- | ---- | ---- | ---- |
| Subtotal | 16.9 | 46.6 | 12.4 | 51.1 | 63.5 |
| Total regions | 97.1 | 214.9 | 136.3 | 175.7 | 312.0 |
| | ---- | ---- | ---- | ---- | ---- |
| Interregional | 0.2 | 61.8 | 4.7 | 57.3 | 62.0 |
| | ---- | ---- | ---- | ---- | ---- |
| Total | 97.3 | 276.7 | 141.0 | 233.0 | 374.0 |

Source: USAID 1991, Overseas Loans and Grants, Cong-R-0105

Table 7.2: Assistance from International Organizations, by Region, 1946-1990 (billions of current dollars)⁷

| Region | 1946- 1952 | 1953- 1961 | 1962- 1982 | 1983- 1990 | Total |
|---|---------------|---------------|---------------|---------------|--------------|
| <u>Aid to regions under examination:</u> | | | | | |
| Africa | .1 | .9 | 25.5 | 44.4 | 70.9 |
| East Asia | .1 | .6 | 28.2 | 41.7 | 70.6 |
| South Asia | .1 | .9 | 24.2 | 40.7 | 65.9 |
| Near East | .1 | .4 | 13.0 | 11.9 | 25.4 |
| Subtotal | .4 | 2.8 | 90.9 | 138.7 | 232.8 |
| % of Total | 28.6% | 57.1% | 60.9% | 64.8% | 63.0% |
| <u>Aid to regions not examined:</u> | | | | | |
| Europe | .6 | .8 | 8.3 | 7.6 | 17.3 |
| Latin America | .3 | 1.1 | 48.5 | 66.1 | 116.0 |
| Oceania | .1 | .2 | .8 | .9 | 2.0 |
| Subtotal | 1.0 | 2.1 | 57.6 | 74.6 | 135.3 |
| Interregional | - | - | .7 | .9 | 1.6 |
| Total | 1.4 | 4.9 | 149.2 | 214.2 | 369.7 |

Source: US Overseas Loans and Grants, Cong-R-0105

⁷. The data is presented in current values, as it is published by USAID. Since the profitability and the economic justification are not examined here it is appropriate to use current values.

3. Distribution of American Bilateral Aid by Country

Analyzing American foreign aid delivered during the Cold War, indicates how U.S. global strategy guided and directed aid policies. The distribution of American aid (see Tables 7.3 and 7.4) shows that:

- * About 35% of the total amount (\$132 billion) was donated, as military and non-military assistance, to five allies of the U.S., nations with whom it had mutual security arrangements.
- * 15% of the total aid was given to the remaining eleven top recipients: eight nations that have been affiliated with the West while only three (Bangladesh, India and Indonesia) perceived themselves as neutral.
- * The rest, about 50% was delivered to more than 100 recipients spread all over the globe.

The impact of economic aid on the recipients can be determined only if the amount delivered was significant enough to cause or initiate some social or economic improvements. Small amounts of external aid have only a marginal effect on the recipient's economy.

Table 7.3: Total American Bilateral Aid, Military and Non-Military, 1946-1990, Ranked by the Total Amount (millions of current dollars)

| | Loans | Grants | Mil. Aid | Econ.Aid | Total |
|------------------------|-------|--------|----------|----------|-------|
| Israel | 13222 | 33625 | 29427 | 17420 | 46847 |
| Egypt | 12335 | 19310 | 14702 | 16943 | 31646 |
| Vietnam | 566 | 22797 | 16416 | 6947 | 23363 |
| Turkey | 6458 | 8953 | 11009 | 4402 | 15411 |
| S. Korea | 3865 | 11005 | 8794 | 6076 | 14870 |
| India | 7184 | 4464 | 148 | 11500 | 11648 |
| Pakistan | 5702 | 4998 | 2951 | 7749 | 10700 |
| Taiwan | 1009 | 5623 | 4360 | 2272 | 6632 |
| Philippines | 1315 | 4880 | 2062 | 4133 | 6195 |
| Jordan | 1285 | 2245 | 1663 | 1867 | 3530 |
| Bangladesh | 1678 | 1765 | 3 | 3440 | 3443 |
| Thailand | 865 | 2515 | 2315 | 1065 | 3380 |
| Morocco | 1770 | 1230 | 1081 | 1919 | 3000 |
| Tunisia | 1040 | 930 | 759 | 1211 | 1970 |
| Exporters of Petroleum | | | | | |
| Indonesia | 2989 | 1322 | 663 | 3648 | 4311 |
| Malaysia | 203 | 86 | 197 | 92 | 289 |

Source: USAID 1991, Overseas Loans and Grants, Cong-R-0105

Table 7.4: Economic Aid, 1946-1990, Ranked by the Total Amount (millions of current dollars)

| | 1946- 1970 | 1971- 1975 | 1976- 1980 | 1981- 1985 | 1986- 1990 | Total |
|------------------------|---------------|---------------|---------------|---------------|---------------|-------|
| Israel | 1014 | 674 | 3824 | 5215 | 6693 | 17420 |
| Egypt | 1258 | 393 | 4569 | 5481 | 5242 | 16943 |
| India | 7606 | 1026 | 954 | 1111 | 803 | 11500 |
| Pakistan | 3432 | 734 | 499 | 1202 | 1882 | 7749 |
| S. Korea | 4875 | 826 | 347 | 28 | - | 6076 |
| Turkey | 2427 | 273 | 269 | 1103 | 330 | 4402 |
| Philippines | 1106 | 392 | 412 | 647 | 1576 | 4133 |
| Bangladesh | - | 828 | 924 | 896 | 792 | 3440 |
| Taiwan | 1961 | 311 | - | - | - | 2272 |
| Morocco | 783 | 165 | 162 | 363 | 446 | 1919 |
| Jordan | 677 | 311 | 422 | 166 | 291 | 1867 |
| Tunisia | 568 | 170 | 136 | 123 | 214 | 1211 |
| Thailand | 476 | 148 | 101 | 180 | 160 | 1065 |
| Exporters of Petroleum | | | | | | |
| Indonesia | 499 | 1040 | 879 | 563 | 666 | 3647 |
| Malaysia | 69 | 23 | - | - | - | 92 |

Source: USAID 1991, Overseas Loans and Grants, Cong-R-0105

The analysis of the data presented in Tables 7.3 and 7.4 indicates that allocation of economic aid followed the following changes in U.S. global strategy:⁸

- * The amount of aid designated for peace-keeping arrangements in the Middle East grew remarkably after the Yom-Kippur war, in the mid 1970s.
- * The amount of aid allocated to maintain U.S. anti-Communist struggle in the Far East decreased substantively after the Vietnam war.
- * Countries that were not involved in these two wars, maintained their original position among the recipients of American economic aid.
- * In conclusion, the data support the claim that a substantive portion of American bilateral aid is allocated so that it will help meeting American global interests.

D. U.S. Trade Relations with the Leading LDCs.

Following the guidelines of the Aid-Trade Matrix (see Chapter six) the top 15 trading partners of the U.S. were chosen for investigation. This diversified group of LDCs, from the four relevant regions, was ranked by the value of U.S. exports to them in 1990 (see Table 7.5). The 15 LDCs were divided into 3 categories: I. A Large market for U.S. exports; II. A Moderate market; and III. A Small market for

⁸. Vietnam has been omitted from the list owing to the extreme change in its political situation.

U.S. exports.⁹ Additional data on U.S. trade with its major suppliers of petroleum were included in the table for general knowledge.¹⁰ The same LDCs were than ranked by U.S. imports from them in 1990 (see Table 7.6).

Analysis of data on American foreign trade yields the following findings:¹¹

- * Trade with LDCs constituted 40-35% of America's foreign trade during the last 30 years.

This channel of trade has expanded slower than the trade with the industrialized countries. Generally, total imports grew proportionally faster (34-fold) than total exports (19-fold).

- * U.S Exports to the more advanced LDCs grew much faster than exports to other LDCs.

Whereas total U.S. exports grew nine-fold during the last 20 years (from \$43.2 billion in 1970, to \$220.8 billion in 1980 and \$394.0 billion in 1990), U.S. exports to the fast growing economies of South Asia rose 25-fold (from \$1.8 billion in 1970, to \$20.3 billion in 1980 and \$45.5 billion in 1990).

⁹. I. A Large market- more than \$5.0 billion U.S. sale in 1990; II. A Moderate market - \$1 billion to \$5 billion in 1990 annual sale); and III. A Small market -less than \$1 billion annual sale).

¹⁰. China is positioned within the first category because of its fast growing trade relations with the U.S. In 1991 U.S. exports to China totaled \$23 billion.

¹¹. The data for the analysis were collected from US Statistical Abstracts and publications of the International Trade Administration of the Department of Commerce. The effect of the inflation and the difference between the currencies of various trade partners are neutralized by using US current dollar values as a common basis for the calculation. Since neither specific transaction nor concrete operations are examined it is appropriate to use current dollar values.

- * U.S imports from LDCs of the first category grew also tremendously (40-fold) during the same period. It rose from \$2.0 billion in 1970 to \$19.5 billion in 1980 and \$81 billion in 1990.

- * Trade with the poor LDCs is much more modest.

Bilateral and multilateral trade negotiations play a crucial role in directing the commercial interactions between the U.S. and its trade partners. The U.S. Trade Representative (USTR), in addition to the Department of Commerce, is the agency responsible for running America's bilateral and multilateral foreign trade policies. The official policy of the U.S. and the USTR promotes free market principles and endorses international trade arrangements. But, in reality, there are situations where the changing conditions require government's intervention for securing the interests of the trading partners.¹² The free market mechanism does not always provide satisfactory arrangements. For resolving such political economy problems a specific additional instrument was established named **the bilateral trade negotiation.**¹³

¹². Economists and officials of the U.S. Trade Representative in Washington DC, expressed to the researcher their belief that such an intervention of government in trade relations is not necessary. They perceive bilateral trade negotiations as an instrument designated mostly to resolve ambiguities and commercial disputes.

¹³. See USTR, 1994. "1994 Trade Policy Agenda and 1993 Annual Report"

Table 7.5: **U.S. Exports to LDCs**, 1970-1990, Ranked by 1990
Value (millions of current dollars)

| | 1970 | 1975 | 1980 | 1985 | 1990 |
|--------------------------------------|--------------|--------------|---------------|---------------|---------------|
| Total LDCs | 12993 | 39215 | 106898 | 117848 | 127450 |
| S. Korea | 643 | 1762 | 4685 | 5956 | 14399 |
| Taiwan | 527 | 1659 | 4337 | 4700 | 11482 |
| Singapore | 240 | 994 | 3033 | 3476 | 8019 |
| Hong Kong | 406 | 808 | 2686 | 2766 | 6840 |
| China | - | 305 | 3755 | 3886 | 4807 |
| Israel | 592 | 1551 | 2045 | 2239 | 3200 |
| Thailand | 150 | 357 | 1263 | 849 | 2991 |
| Philippines | 373 | 832 | 1999 | 1379 | 2472 |
| India | 572 | 1290 | 1689 | 1642 | 2486 |
| Turkey | 315 | 608 | 540 | 1295 | 2253 |
| Egypt | 77 | 683 | 1874 | 2323 | 2249 |
| Pakistan | 325 | 372 | 642 | 1042 | 1143 |
| Morocco | 89 | 200 | 344 | 279 | 497 |
| Jordan | 63 | 195 | 407 | 377 | 401 |
| Tunisia | 49 | 90 | 173 | 256 | 179 |
| Subtotal | 4421 | 11706 | 29472 | 32465 | 63418 |
| Exporters of Petroleum | | | | | |
| Saudi Arabia | 141 | 1502 | 5768 | 4474 | 4035 |
| Malaysia | 67 | 393 | 1337 | 1539 | 3425 |
| Indonesia | 266 | 810 | 1545 | 795 | 1897 |
| Nigeria | 129 | 536 | 1150 | 676 | 551 |
| Subtotal | 603 | 3241 | 9800 | 7484 | 9908 |
| Total countries under examination | 5024 | 14947 | 39272 | 39949 | 73326 |
| % of Total LDCs | 39% | 38% | 37% | 34% | 58% |

Source: U.S. Statistical Abstracts

Table 7.6: U.S. Imports from LDCs, 1970-1990, Ranked by 1990
Value (millions of current dollars)

| | 1970 | 1975 | 1980 | 1985 | 1990 |
|-----------------------------------|--------------|--------------|---------------|---------------|---------------|
| Total LDCs | 10442 | 39311 | 117025 | 116161 | 180498 |
| Taiwan | 549 | 1946 | 6850 | 16396 | 22667 |
| S. Korea | 370 | 1442 | 4147 | 10013 | 18493 |
| China | 1 | 160 | 1056 | 11990 | 15224 |
| Singapore | 81 | 534 | 1920 | 4260 | 9840 |
| Hong Kong | 944 | 1573 | 4736 | 8396 | 9488 |
| Thailand | 100 | 217 | 816 | 1428 | 5294 |
| Philippines | 472 | 756 | 1731 | 2145 | 3383 |
| Israel | 150 | 314 | 943 | 2123 | 3313 |
| India | 298 | 549 | 1098 | 2295 | 3191 |
| Turkey | 70 | 145 | 175 | 602 | 1180 |
| Pakistan | 80 | 49 | 128 | 274 | 461 |
| Egypt | 23 | 28 | 458 | 79 | 396 |
| Morocco | 10 | 10 | 35 | 39 | 109 |
| Tunisia | 3 | 26 | 60 | 13 | 32 |
| Jordan | 1 | 1 | 2 | 14 | 12 |
| Subtotal | 3152 | 7750 | 24155 | 60067 | 93083 |
| Exporters of Petroleum | | | | | |
| S. Arabia | 20 | 2623 | 12509 | 1907 | 9974 |
| Nigeria | 71 | 3281 | 10905 | 3002 | 5977 |
| Malaysia | 270 | 772 | 2577 | 2300 | 5272 |
| Indonesia | 182 | 2222 | 5217 | 4569 | 3343 |
| Subtotal | 543 | 8898 | 31208 | 11778 | 24566 |
| Total countries under examination | 3695 | 16648 | 55363 | 71845 | 117649 |
| % of Total LDCs | 35% | 42% | 47% | 62% | 65% |

Source: U.S. Statistical Abstracts

Owing to the particular interests and the specific issues discussed the U.S. and its trading partners often prefer to resolve crucial trade problems by direct bilateral negotiations. This practice proved to be more effective and bears more fruits than the discussions with the **GATT** bureaucracy and the newly established forum of the **World Trade Organization (WTO)**. Both the U.S. and its trading partners use the bilateral trade negotiations for clarifying misunderstandings, resolving grievances and curing damages caused by the global market fallacies.

E. Economic Growth of Aid Recipients

Despite remarkable development efforts and regardless of hundreds billions of dollars invested in economic assistance most of the LDCs are still very poor. This observation contradicts a recent World Bank claim that "enormous progress...has been made and continues to be made in the developing world."¹⁴ Government agencies, NGOs and international organizations continue to use qualitative terms to describe the progress in the less developed world.

¹⁴. Claimed by Summer and Thomas (1993) as they justified the World Bank development policy. However, to support their argument they mention only a few specific middle-income cases, such as Korea, Turkey and Brazil, and ignore the rest of the poor LDCs.

A good example for such an approach is the term "sustainable development," recently popular in the aid literature, and appears also in the "Peace, Prosperity and Democracy act of 1994", submitted by the Clinton Administration to the House of Representatives. This term demonstrate well how an unmeasurable term is used to set goals for a public policy such as foreign aid.¹⁵

The data on GNP per capita (Table 7.7) reflect the different rates of economic growth and highlight the following points:

- * A disparity in both absolute values of GNP per capita and relative rates of economic growth characterizes high-income, middle-income and low-income LDCs.
- * The gap between rich and many poor countries had grown during the last 30 years.

An analysis of the effect of foreign assistance (bilateral and multilateral aid), on LDCs' rate of development indicates that, in practice, foreign aid has little impact on LDCs raise of GNP per capita.

- * No clear connections were identified between the magnitude of American aid delivered and the recipient's economic growth.

Bangladesh, Egypt, and the Philippines represent

¹⁵. "Sustainable development" is defined as "growth that brings with it the alleviation of poverty and the preservation of the environment for successive generation in a context of government accountability and social justice consistent with the aspirations of all members of a society" (ODC, 1992: 10; Sewell, 1993).

countries that have received large amounts of aid (military or non-military) and are still very poor. On the other hand, South Korea, Thailand, and Turkey, which also received large amounts of aid behaved differently and achieved substantial economic growth. South Korea, Thailand, and Turkey demonstrate how a prudent political economic strategy which wisely incorporated external aid with other domestic endeavors resulted in impressive economic advancement.

- * Little influence was found between the provision of multilateral assistance and a raise in the GNP per capita of the recipients.

Egypt, India and Pakistan demonstrate well the insufficiency of multilateral assistance to accelerate economic growth of LDCs. Despite the large amounts of capital directed to them by international institutions these LDCs are still very poor.

On the other hand, participating in international trade, particularly expanding exports of manufactured goods, appears to have a positive influence on the economic growth of exporting countries. It can be said, therefore, that

- * The extent of trade relations with the U.S. might be used as an indicator of the LDC's GNP per capita.

Ignoring the question which comes first, a higher GNP per capita or enhanced trading relations, the data indicate that, generally, these two variables vary together. A country with a higher GNP per capita has extended trade

relations and vice versa (see Table 7.8). Singapore, Hong Kong, Israel, and South Korea, the four countries with the highest percentage of export of manufactured goods to the U.S., also have the highest GNP per capita. India, China, Pakistan, and Bangladesh, the four poorest nations, have relatively low percentage of exports. The other countries reside between these two ends in both export and growth.

Table 7.7: GNP per capita, 1970-1990, Ranked by 1990 value
(U.S. current dollars)¹⁶

| Year | 1970 | 1975 | 1980 | 1985 | 1990 |
|------------------------|------|------|-------|------|-------|
| Singapore | 950 | 2820 | 4820 | 7880 | 12430 |
| Hong Kong | 900 | 2210 | 5220 | 6120 | 11890 |
| Israel | 1830 | 3880 | 5390 | 6610 | 11160 |
| S. Korea | 270 | 580 | 1620 | 2320 | 5440 |
| Turkey | 400 | 830 | 1400 | 1080 | 1640 |
| Tunisia | 400 | 860 | 1690 | 1180 | 1440 |
| Thailand | 210 | 360 | 670 | 800 | 1410 |
| Morocco | 280 | 500 | 930 | 620 | 970 |
| Philippines | 230 | 340 | 650 | 540 | 730 |
| Egypt | 250 | 320 | 500 | 670 | 610 |
| Pakistan | 170 | 130 | 290 | 340 | 390 |
| China | 130 | 180 | 300 | 330 | 370 |
| India | 110 | 170 | 240 | 280 | 360 |
| Bangladesh | 100 | 130 | 140 | 160 | 210 |
| Exporters of Petroleum | | | | | |
| S. Arabia | 760 | 3280 | 10420 | 8700 | 7070 |
| Malaysia | 390 | 820 | 1690 | 1970 | 2320 |
| Indonesia | 80 | 210 | 400 | 550 | 570 |
| Nigeria | 220 | 520 | 1100 | 1020 | 340 |

¹⁶. Taiwan does not appear in the tables because the World Bank and the U.N. do not publish statistics on Taiwan.

F. **Categorizing Aid Recipients by the "State-Market Matrix"**

A method for categorizing LDCs by their main export item and the nature of their regime was proposed in Chapter Six. This method which places aid recipients on the "State-Market Matrix," illustrates their past economic behavior and may assist in predicting future development.

The data indicate that, besides Israel, none of the recipients of large amounts of aid maintained a full-fledged Western-style democracy. Most nations were governed by semi or quasi-democratic governments. With regard to export to the U.S., the Matrix indicates that four countries are exporters of petroleum (Saudi Arabia, Malaysia, Indonesia and Nigeria) and, therefore, are not examined by our study. Among the remaining sixteen nations, seven export a negligible percentage of their GNP (Bangladesh, Egypt, India, Jordan, Morocco, Pakistan, Tunisia); two are exporters of mixed merchandise (Philippines and Turkey); and seven are exporters of manufactured goods (China, Israel, Hong Kong, Singapore, South Korea, Thailand and Taiwan). An illustrative demonstration of the use of the "State-Market Matrix" is presented in Figure 7.1. The situation demonstrated by the "State-Market Matrix" supports the observations detailed in the previous sections and is helpful for summing up the results of the study.

Table 7.8: Total Aid, Export of Manufactures and Change of GNP per capita, by Country

| | Total Aid \$ Billion 1946-1990 | Export of Manf. As % of GNP 1990 | Change of GNP p. capita 1970-90 (\$) |
|------------------------|--------------------------------------|--|--|
| Singapore | - | 114% | 11480 |
| Hong Kong | - | 41% | 10990 |
| Israel | 46.8 | 20% | 9330 |
| S. Korea | 25.8 | 26% | 5170 |
| Turkey | 27.4 | 10% | 1240 |
| Thailand | 12.6 | 18% | 1200 |
| Tunisia | 5.7(*) | 21% | 1040 |
| Morocco | 10.1(*) | 9% | 690 |
| Philippines | 19.7 | 9% | 500 |
| Egypt | 37.5 | 3% | 360 |
| India | 51.6 | 4% | 250 |
| China | 13.7 | 11% | 240 |
| Pakistan | 25.0 | 10% | 220 |
| Bangladesh | 13.7 | 4% | 110 |
| Exporters of Petroleum | | | |
| Malaysia | 5.5 | 38% | 1930 |
| Indonesia | 31.1 | 9% | 490 |
| Nigeria | 7.9 | - | 120 |

(*) As former French colonies these countries enjoyed French assistance, not included in the total of this table.

Categories of Export:

- (N) Negligible
(P) Primary products
(F) Fuels
(X) mixed export
(M) Manufactures

N P F X M

Form of Government

D1C3 - Bangladesh Indonesia
A Non-Democratic, Egypt Malaysia
M.Competence Regime Pakistan Nigeria

D1C4 -
A Non-Democratic, S.Arabia China
Competence Regime Hong Kong

D3C3 - India Tunisia Thailand
A Semi-Democratic, Jordan Turkey
M.Competence Regime Morocco Philippines

D3C5 - S. Korea
A Semi-Democratic, Singapore
Hig.Competence Regime Taiwan

D5C5 -
A Democratic, Israel
Hig.Competence Regime

**Figure 7.1: Position of the Examined Countries on the
"State-Market Matrix" (Based on 1990 figures)**

The position of the countries examined on the "**State-Market Matrix**" (Figure 7.1), the "**Aid-Trade Matrix**" and the **HDI** list, enables us to rank them by their development level (the extreme left column below).¹⁷ The following list shows that in most cases our ranking corresponds with the **HDI** ranking (the extreme right column).

| Rank | Country | "State-Market" | "Aid-Trade" | HDI | |
|------|-------------|----------------------|-----------------------|-------|------|
| | | Matrix Symbol (*) | Matrix Symbol (**) | Index | Rank |
| 1 | Israel | D5C5M | LAMM | 0.957 | 111 |
| 2 | South Korea | D3C5M | LALM | 0.903 | 97 |
| 3 | Taiwan | D3C5M | LALM | N.A. | N.A. |
| 4 | Singapore | D3C5M | SALM | 0.899 | 96 |
| 5 | Hong Kong | D1C4M | SALM | 0.936 | 108 |
| 6 | Thailand | D3C3M | MAMM | 0.783 | 78 |
| 7 | Turkey | D3C3X | LAMM | 0.751 | 72 |
| 8 | Tunisia | D3C3X | SASM | 0.657 | 60 |
| 9 | Philippines | D3C3X | LAMM | 0.714 | 65 |
| 10 | Morocco | D3C3N | MASM | 0.489 | 44 |
| 11 | Jordan | D3C3N | MASM | 0.752 | 73 |
| 12 | China | D1C4M | SAMM | 0.716 | 66 |
| 13 | India | D3C3N | LASM | 0.439 | 37 |
| 14 | Egypt | D1C3N | LASM | 0.501 | 45 |
| 15 | Pakistan | D1C3N | LASM | 0.423 | 36 |
| 16 | Bangladesh | D1C3N | MASM | 0.318 | 23 |

(*) Full (5), semi (3) or none (1) **Democracy (D)**, highly (5) or medium (3) **Competent (C)** government. Exporter of **Manufacturers (M)**, **mixed** merchandize (X) or **Negligible** amounts (N).

(**) **Small, Medium and Large Aid (A)** or **Market (M)**

¹⁷. The UN assembled measures of life expectancy at birth, adult literacy, and GNP per capita and produced a composite **Human Development Index (HDI)** ranking of 130 nations. The ranking is in ascending order so Japan actually rates highest (130) and Niger lowest (1). The U.S. rates 112 with HDI value of 0.961 (Kennedy, 1993: 351)

Israel, ruled by a democratic and competent regime, exports manufactures, received large amounts of aid and is a moderate market for American goods, ranks first. Bangladesh and Pakistan, ruled by an authoritarian low competence regimes, with negligible export, received large and moderate amounts of aid were small markets for U.S. merchandize, hold the lowest positions.

G. Summing-up the Analysis

Data on fifteen top recipients of American bilateral aid (Tables 7.1-7.8) form the basis for this analysis. Quantitative and qualitative measures were employed for collecting, analyzing and assessing the results. The **primary findings** of this research are that **no clear and direct influence was found between amounts of multilateral and bilateral assistance given and the increase of GNP per capita of aid recipients.** On the other hand, **export of manufactured goods is well associated with economic growth.** **Negligible exports characterize low-income countries while growing exports increase dramatically GNP per capita.** The findings of the analysis form the basis for the conclusions outlined in the next chapter.

PART IV. CONCLUSIONS AND RECOMMENDATIONS

Chapter Eight: Findings and Conclusions

A policy study in mid 1994 must recognize that the world today is in transition, in search of new directions. The collapse of the Soviet Union, the disintegration of Yugoslavia, the new democratic regime in South Africa and the agreements between Israel and the Arabs symbolize the ending of an era and the opening of new opportunities. As stated in the beginning of this study, there is no indication for assessing whether the world will be better organized or, may be, more confused. The conclusions of this study, attempt to fit into this reality of world in transition.

Analysis of the relations between American aid and trade and their impact on economic growth of a sample group of fifteen nations, indicate that foreign aid was used for promoting U.S global interests as well as fulfilling its original objectives of helping the poor. The findings shows that the outcomes depend mostly on the nature of the recipient. A rapid economic growth was achieved only by competent, and decisive governments which controlled the economy, minimized corruption and rested primary on a traditional work-culture. Such advanced LDCs were able to use exports of manufactures, in addition to aid, as leverage

for hastening their development.

In drawing the study's conclusions three aspects should be considered: (a) the wish to propose operational guidelines for a modified aid policy in the future; (b) the argument of the Dissertation; and (c) the theoretical grounds that were examined. To meet this requirement, the conclusions are divided into three corresponding groups.

A. Findings and Conclusions as Operational Guidelines

1. A Reformed Aid Strategy is Linked to an Updated Foreign Policy

Demand to change the focus of foreign policy has recently been expressed by President Clinton. He stated that "elevating national and global economic growth as a primary foreign policy goal" is among the three "overarching" foreign policy goals.¹ Concurrently, Secretary of State Christopher (1993), called to open "a new era of unprecedented change, hope and opportunity" steered by "a diplomacy of partnership." The introduction of economic and domestic considerations into the mere political and somewhat detached approach of the classical diplomatic service, as stated by the President and the Secretary, are

¹. The second goal is "updating our forces and security arrangements to meet new threats". And the third, "organizing our foreign policy to help promote democracy, human rights and free market abroad".

the first steps in modifying foreign policy. This shift, which is in conformity with the findings of this study, combined with some other important measures, can revitalize the mission of the Department of State, move it forward in meeting the challenges of the post Cold-War era. A window of opportunity is opening now for proposing a new conceptual perspective of foreign aid.² The principal conclusions, derived from the study, are delineated below:

- * **A reformed foreign aid strategy will continue in the future to reflect and promote the priorities of America's foreign policy and its global interests.**
- * **Generosity and self-interest which motivated foreign aid in the past, will continue to lead future aid operations while seeking security and prosperity for the U.S. and LDCs.**
- * Although the study clearly indicates that aid is effective (raises significantly the recipients' GNP per capita) only when it enhances trade activities, no one can guarantee that this consideration will steer the decisions of the policy-makers.
- * The magnitude of aid appropriations will be determined by the ability of policy-makers to link them to the fulfillment of American domestic and global desires.
- * **Small amounts** of aid will continue to be given, because of political reasons, despite the fact that **they have only a marginal effect and a little impact on the recipients' economic growth.**

². This situation happened in the early 1990s because of the convergence of three occurrences: (a) the change in world politics; (b) the unsatisfactory economic advancement of LDCs; and (c) the willingness of the Clinton Administration to reform foreign aid policy.

- * **Foreign aid policy will be constructive and will raise the recipient's GNP per capita, only when it will be intertwined with trade arrangements and will create an integrative strategy tailored to meet the recipient specific conditions.**

2. Comparing Multilateral Aid with Bilateral Aid

Policy-makers, development specialists and recipients prefer multilateral assistance to bilateral aid because of (a) it requires less American investment,³ (b) it is, generally, free from domestic policy concerns,⁴ and (c) it has fewer American strings attached to it. But, The United Nations and the World Bank, the two major institutions which lead international development, have few examples to show that GNP per capita of an LDC increased substantially because of multilateral assistance. Neither was a case found in this study, to support the contention that World Bank or U.N. assistance is more effective than bilateral aid.

Many international activities were carried out in an inefficient, and sometimes even wasteful manner.⁵ Although the World Bank can point to its profitability in lending money to LDCs the results of the Bank's development activity are questionable. Thus, the conventional wisdom which

³. L. Bentsen (1993)

⁴. J. Sewell (1993)

⁵. Bruce Rich (1993).

endorses multilateral assistance by international institutions, does not have enough evidence to support this advocacy.⁶ Similarly, the findings indicate that solid and long affiliation with the West and little involvement in Third World politics did not yield more inferior economic results than neutrality and dependency on assistance from international institution. In conclusion, we claim that:

- * Multilateral aid is not superior to bilateral aid, it is not more effective and it does not yield better results.
- * Multilateral aid significantly increases GNP per capita only when it is combined with bilateral aid and trade initiatives.

3. International Trade as a Catalyst for Prosperity

Foreign Trade is a good criterion for measuring prosperity because it was effective in increasing GNP per capita. A meaningful involvement in international trade, can replace foreign aid as a source for transfer of foreign capital into LDCs. This form of commercial relationships, between developed and less developed countries, is preferred because it benefits both trading parties. Involvement of LDCs in international trade, and in export activities in particular, was found to be an important catalyst for

⁶. Another important issue in questioning multilateral aid is the lack of public supervision and control of the actions taken by international institutions. In fact, many of them are led by the priorities of their bureaucracies rather than by the interests of their constituents.

boosting economic growth.⁷ **The course of economic growth usually corresponds to the shift** from an import-substituting inward-oriented economy **toward an export-oriented strategy.**⁸

Export-oriented economy (more than 20% of the GNP) and enhanced exports of manufactures in particular, fairly indicate LDCs level of economic growth. A higher level of exports of manufactures indicates a higher level of GNP per capita. Countries such as Egypt, Pakistan and the Philippines, despite massive amounts of aid have failed to increase their export activity and remained poor. On the other hand, nations such as Thailand, Tunisia and Turkey which gradually increased their foreign trade activity, have also succeeded in increasing their GNP per capita (See Table 7.8). This situation leads to the following conclusions:

- * **A reformed development policy should promote the involvement of aid recipients in international trade and encourage the development of an export-oriented sector in LDCs' economies.**
- * **Poor countries should learn from the experience of the advanced LDCs and the Newly Industrialized Countries (NICs) and should promote exports of manufactured goods.**

⁷. LDCs whose export of manufactured goods surpasses 20% of their GNP, attain the fastest growth rates and the highest levels of GNP per capita (except China).

⁸. This shift is characterized by the move from low levels of exports to exports of mixed merchandize and finally to the export of manufactured goods.

4. Multilateral and Bilateral Trade Arrangements

The new "most comprehensive trade agreement in history" signed recently,⁹ will benefit many LDCs -- particularly LDCs which have established export-oriented economy. Although the new trade agreement cuts foreign tariffs on manufactured goods by over 30%, it will benefit the industrialized nations, but also opens new opportunities for LDCs. LDCs will have the opportunity to use the new multilateral trade agreements for increasing their exports to industrialized nations and in this way to accelerate their economic growth. The shift to free-market economies by LDCs, previously endorsed an inward-oriented protectionist policy, enables them to improve their performance as competitors in the international market. An economic shift, combined with some social improvements, such as controlling population growth and minimizing corruption, ultimately can increase the GNP per capita of the relevant LDCs. Bilateral trade negotiations are a common practice in international trade relationships. These bilateral arrangements enables the U.S. to assist LDCs by granting them the Most Favored Nation (MFN) status. Further, this forum is opened before LDCs to ask for other concessions,

⁹. Signed by representatives of 125 nations gathered in Marrakesh, Morocco on 4/15/1994, a quote from "Uruguay Round: Jobs for the United States, Growth for the World" USTR 1994.

such as trading under the Generalized System of Preferences (GSP) program.¹⁰ In conclusion, an adequate use of the existing and the new trade mechanisms can benefit both parties:

- * **The new multilateral trade agreements open new avenues for LDCs** to increase their trade and accelerate their economic growth.
- * **Bilateral trade committees** seem to be the most **effective mechanism** for enhancing bilateral trade relationships. As such they can be reformed to become an effective institution for running a comprehensive aid and trade strategy.

5. **Attributes of a Successful Aid Recipient or an Advanced LDC**

Summing up the data analysis and the examination of the participating countries enable us to conclude with sketching some characteristics of the advanced LDCs. The research's findings, thus, facilitate outlining the major attributes of a successful aid recipient and can be used as instructive guidelines for the rest of the LDCs:

- * The LDC, its people, government and economic potential must be able to attract and import large amounts of external capital as multilateral and bilateral aid, institutional and commercial disbursements.
- * The country develops a fast growing economy (5-10% annual increase of GNP per capita), geared toward

¹⁰. GSP - Generalized System of Preferences. LDCs allowed to trade under this program, are eligible to receive duty-free access to the U.S. market for many items (USTR, 1994: 80).

exports, and particularly promotes exports of manufactured goods.¹¹

- * The nation tolerates an authoritarian regime, ruled by a decisive and competent government that controlled the economy, and is concerned with population growth, education and provision of minimal social services.¹²
- *. The nation maintains traditional culture that endorses self-discipline, diligence, hard-working and an acceptable level of financial honesty.
- * The government maintains close relations with the West and minimizes its involvement in Third World politics.

South Korea, for example, the success story of the development industry, meets most of the requirements necessary for increasing economic growth. This is also true for Taiwan, Israel, Singapore and Hong Kong. Turkey, Tunisia and Thailand, on the other hand, meet some of the characteristics and are moving from the category of Low-Income Economies toward the Middle-Income category (more than \$1000 GNP per capita in 1990). In sum, the data show that, despite substantial amounts of bilateral and multilateral aid given, the poorest nations, such as Egypt and Pakistan, are still far behind in their GNP per capita.

¹¹. Exports constitute more than 25% of the national economy. Exports of manufactured goods are the leading export item (more than 80% of total exports)

¹². No full-fledged Western democracy (other than Israel), nor an extreme dictatorship were found among the LDCs examined. It appears that democracy is not always necessary for executing a successful export-oriented policy.

B. The Conclusions and the Argument of the Dissertation.

Five assumptions which formed the base of the argument of this dissertation were outlined in Chapter One:

- 1) Provision of large amounts of aid was neither the only, nor the best strategy for accelerating economic growth of recipients;
- 2) American aid policy was effective in increasing GNP per capita when it was accompanied by developing an export-oriented economy;
- 3) An export-oriented economy can be developed only in a country, ruled by a competent government which endorses a culture of hard-work;
- 4) An LDC that increases its exports to the U.S. has the potential of becoming an important market for American goods;
- 5) Bilateral negotiations can be used for improving aid and trade relationships between the U.S. and LDCs.

The findings confirm the first proposition and indicate that no direct relationship was found between the amounts of aid delivered, and economic growth of the recipients.

Naturally, investment capital is crucial for development because it enables competent recipients to form a solid basis for their future growth. But, to determine exactly the effect of every single source, either external aid, loans or exports' revenues is not simple. For the purpose of this study, however, it is enough to address American aid as one of several sources of foreign capital and know-how, available for qualified LDCs.

With regard to the assumptions on the contribution of trade to LDCs' economic growth. The findings indicate that

trade expands as exports grow and both variables affect increase in GNP per capita. The lesson for LDCs is almost clear, a nation that seek economic growth should build itself as a trader.

The findings support also the assumption that, in addition to available funds and other physical resources, an able government and certain traditional and cultural structures are necessary for enabling economic advancement of the recipient. Both physical and social determinants are perceived essential for economic growth, but, no one can determine what is more important.

The assumption on the role of bilateral negotiations as a mechanism for securing the interests of the U.S. and the LDCs can be tested only by implementation. We recommend, however, to use the bilateral trade committees as a suitable forum for administering an integrated aid and trade strategy

In sum, the five assumptions of the argument are supported by the conclusions. In some cases little relationships between aid, trade and economic growth were found. Similarly, weak connections and unclear directions characterized some of the interactions between the variables examined. However, in general, the conclusions provide an understanding of the issues under examination and enable some recommendations to be formulated for the future.

C. The Conclusions and the Theoretical Grounds

As previously mentioned, multiple case study methodology requires that before recommendations are proposed, the study's conclusions must be examined against the theoretical grounds.

Two political economy theories, the traditional Liberal Theory, and the Nationalist, Protectionist Theory, were considered for explaining the complexity of the development process and against them the conclusions are examined. The findings indicate that U.S. relations with the major aid recipients, were conducted or directed by two concepts: (a) endorsing and maintaining free-market principles, and (b) administering and tolerating protectionist practices. The research clearly implies that the U.S. and the LDCs examined, used both perspectives for promoting their national goals. They did not adopt and implement only one concept. Generally, free-market principles gained more influence on trade issues, but, they were applied differently to exports and imports. Whereas liberal trade rules were demanded and applied to exports, protectionist policy was maintained in the domestic markets where restrictions were imposed on imports.

Economic aid was usually delivered through governmental channels in spite the accusations of inefficiency and corruption of LDCs' governments. As a corrective measure

scholars advocate to apply free-market principles to the recipients' economies. But, paradoxically, the same experts decline to introduce free-markets rules into the aid delivery process. They hesitate to provide aid through private bodies and preferred to work with bureaucrats and technocrats. Whether, and to what extent, free-market principles should lead the day-to-day operations, is a question to be answered by further studies.

In sum, the study indicates, that neither the Liberal Theory nor the Protectionist Theory exclusively directed the behavior of both parties participating in the aid and trade business. The U.S. and the LDCs are led by a mixed, pragmatic approach that distinguish between aid and trade. They maintain a bureaucratic control on aid but a more liberal and free attitude toward trade. Although the recommendations support this pragmatic approach, they suggest enacting an integrated strategy which leads to a modified aid and trade policy, based on free-market principles, motivated by generosity and self-interest, and seeks "security and prosperity."

Chapter Nine: Recommendations

Introduction

While examining aid-trade relationships, the discussion embraces additional aspects of the donor-recipient issue. The recommendations, however, focus on the original subject-matter and attempt to apply the conclusions derived from the findings, to the political reality in the U.S. at present. Developing a political economy strategy is a complicated task which is further complicated by the conditions prevailing in the transitional period of the early 1990s. The strategy proposed below takes into account, in addition to the findings and the conclusions, some practical understandings required for implementation. Among these issues are the necessity to gain the support of the general public and policy-makers, the need to define specifically the policy and its objectives and the demand to present an understandable assessment of the results. These concerns are summarized by principles on which the recommendations are based:

- * Compatibility with the American political process.
- * Distinction between military and non-military aid
- * Use of cost/effective approach, concrete and measurable terms for evaluating economic aid.
- * Application of lesson learned from advanced LDCs to poor ones.

Recommendations

A. The Nature of the Modified Foreign Aid Policy

1. **Foreign aid policy** should **address differently military, humanitarian and economic aid**. **Distinctive criteria** should be used for administering and evaluating the three forms of aid.
2. **Foreign aid policy** should **reflect the priorities of the American people** and satisfy domestic concerns.

B. The Nature of the Modified Economic Aid

3. **Economic aid** should be defined, allocated and evaluated by using **economic terms** and cost/effective methods.
4. **Economic aid policy** should be **selective, result-oriented and directed to able recipients** that strive to accelerate their economic growth.
5. **Economic aid policy** should help recipients to **develop an export-oriented economy** and, particularly, exports of manufactured goods.
6. **Economic aid** should focus on **promoting donor-recipient cooperation**, providing technical assistance, founding joint ventures and developing **infrastructures**.
7. **Economic aid policy** should encourage recipients to execute a sound and persistent **policy of population growth control**.

C. The Nature of the Aid and Trade Integrated Strategy

8. **Economic aid** and **trade** should be managed as a one **integrated strategy**, administered by **Bilateral Aid and Trade Committees (BATC)**.
9. **Two rounds of bilateral negotiations** should be conducted. In the first one, issues concerning export from the LDC will be discussed. In the second round, ways of increasing U.S. exports will be discussed.

D. **A Proposed Strategy for Guiding US-LDCs Relationships**

The proposed new strategy will be carried out through a operational framework named **Aid and Trade Joint Program (ATJP)** which will reside on the following principles:

- * The **ATJP** will be the **central and the dominant organ for monitoring the economic relations between the U.S. and a recipient LDC.**
- * **All aid activities** and monies (multilateral and bilateral) provided to LDCs members of the program will be directed **through one channel**, administered by the ATJP.
- * Representatives of all **donors**, (national agencies and international institutions) will be **members**, or participants of the ATJP forum.
- * **LDC's participation** in the program will be **optional**. LDCs will have to express their wish to take part in the ATJP and comply with its rules.
- * **Gradual affiliation** of new members will be enacted and approved by the ATJP steering committee. Only several LDCs will be allowed to join the ATJP every year, in order to enable fair testing of the program.
- * **Membership** in the ATJP will be for an **agreed period** (3-5 years). Every development program requires some time for execution, before any judgement can be made.
- * The **Bilateral Aid and Trade Committee (BATC)**, nominated for every member, will be the **operational body** within the ATJP, to run and monitors the annual and the daily activities.

Note: The above proposal is outlined here only in a very general manner. Details will be discussed separately.

Discussion

The recommendations above sketch a comprehensive approach, relevant to most LDCs, but offer also strategies that meet the requirements of specific cases.

* American foreign aid comprises three channels of aid: Military, Humanitarian and Economic assistance. The dissertation directs its recommendations to economic aid only, because the other two forms of assistance are motivated by non-economic rationales.¹ Economic aid, therefore, is the only form of assistance designated to achieve economic results. The proper way to manage such a result-oriented operation is by addressing and evaluating it by economic criteria (GNP per capita, for example).² Some development scholars and practitioners use qualitative terms, such as "sustainable development," for defining the goals of aid policy. By so doing they release themselves from the need to compare inputs with outputs and weighing effects against cost.

Our approach differs from this practice because we

¹. Military and peace-keeping assistance is directed and managed by the Departments of State and Defense. Humanitarian aid, managed by the Agency for International Development will continue to be designated for emergencies and disasters.

². GNP per capita does not cover all aspects of development, such as distribution of income or national indebtedness. But it serves well the purpose of this study which analyzes the relations from the donor point of view.

attempt to measure quantitatively economic growth. We stick to the GNP per capita as the evaluating measure of development policy effectiveness. We incorporate in the analysis qualitative determinants, such as internal politics, tradition or culture in a descriptive, narrative manner.

* The recommendation to direct future aid to able recipients for developing an export-oriented economy and building infrastructures emerges from the findings of this research and from lesson learned from the advanced LDCs. Every textbook in economics, management and industrialization emphasizes the crucial role of physical and technical infrastructures for building industries and developing healthy growing economies.³ Inadequate infrastructures hinder economic growth while a steady improvement of infrastructures is crucial for ensuring progress. The findings indicate that nations, such as South Korea, Thailand and Turkey, pulled themselves out of the poverty level by using wisely economic aid, trade and infrastructures prepared originally for military uses. Since military aid will stop to be available for infrastructure building, LDCS have to seek assistance from

³. Some will argue that building a system for controlling population growth belongs to the social infrastructures. We do not discuss this matter here since it is beyond the scope of the study.

other sources.⁴ U.S. economic aid can replace military assistance in this area, because American public and private firms have the skills, know-how and ability to successfully carry out these missions. We recommend, therefore, to steer economic aid initiatives toward establishing U.S.-LDCs joint ventures, designated for building infrastructures and developing export-oriented industries.

* Population growth rate is a very crucial factor that determines country's wealth and its GNP per capita, and affects almost every domain of LDCs' social life. Economic growth cannot be achieved without controlling population growth. The findings indicate that no one country succeeded to increase significantly its GNP per capita without reducing the growth rate if its population. For these reasons, we regard the control of population growth as one of the objectives of the reformed aid policy.

* Although economic aid and trade policies pursue common goals, because of bureaucratic reasons, they are administered separately, by two different agencies. Our findings indicate that in reality, and in the advancing LDCs in particular, these two policies are intertwined. It is

⁴. Our recommendation to put more attention to the issue of infrastructure in development is supported by the most recent publication of the World Bank, "World Development Report 1994: Infrastructure for Development" and other seven publications on specific areas (The World Bank Publication Update May/June 1994).

difficult to determine whether aid or trade contribute more to the advancement of LDCs, but, we found that expanding trade relations with the U.S. may be used as a working criterion for evaluating the outcomes of aid policies. There is no rationale that justifies maintaining the current operative separation of aid and trade. Consolidating and combining aid and trade policies into an integrated strategy for assisting LDCs to develop themselves, may increase the value of the assistance making it more effective and more result-oriented. It is recommended, therefore, that an integrated strategy should be executed by a committee consisting of officials from the two agencies, USAID and USTR, and representatives of the recipient countries. The proposed **Bilateral Aid and Trade Committees (BATC)** could become a constructive forum for conducting U.S.-LDCs aid and trade relationships. The experience of managing foreign trade reveals that essential negotiations between the U.S. and its major trade partners were conducted by bilateral bodies.⁵ Similarly, U.S. military cooperation with its allies has improved the constructive nature of relationships, developed by bilateral negotiations. A similar mechanism should be established for managing

⁵. USTR, 1994. "1994 Trade Policy Agenda and 1993 Annual Report".

economic aid and trade. As we often find negotiations with recipients of small aid or with nations that have little trade with the U.S. could be conducted by Bilateral Aid and Trade Regional Committees (BATRC).

A two-round mechanism of bilateral negotiations must be integrated within the comprehensive strategy that will direct future aid and trade policies. The first round of the bilateral negotiations is the forum suited for discussing LDCs exports to the U.S. Export of manufactures to the U.S has a significant impact on the economic growth of LDCs because it opens an additional channel for mobilizing investment capital. America can partially replace foreign aid to these countries by granting concessions and imposing quotas on their exports. The type of the concessions, their magnitude and duration are opened for negotiations.⁶ The second round of the bilateral negotiations should address the problem of how to increase American exports to LDCs. It can follow only after increasing exports from LDCs will not be outweighed by increasing exports from the U.S. Although some economists oppose such bilateral negotiations, regarding this as a negative interference by government in the market mechanism,

⁶. The Most Favored Nation (MFN) status and the Generalized System of Preferences (GSP) are the two instruments usually used by USTR to grant concessions to qualified nations.

policymakers support it, thinking that such a procedure is necessary, workable and advantageous for both parties, the U.S. and the LDCs. This procedure can improve cooperation, increase accountability and yield mutual benefits for the U.S. and its partners.

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