It a better position to meet its investment

It is also possible that the net inflow may be reduced to zero or may even become negative.

Such a situation also carries the risk of pushing an aid-receiving country into an external debt trap. By implication, an aid-receiving country should ensure that foreign aid helps it in generating additional export earning to such an extent that its balance of payments does not worsen in future. 2. Resource Gap: In the final analysis, foreign aid is meant to fill the gap between domestic savings and investment needs of the aided country.

It is a mechanism by which it draws upon the resources of the aid-givers. It is expected, therefore, that with successful use of foreign aid, its economy would grow and be in a better position to meet its investment needs from its own resources. 3.

Utilisation: However, availability of foreign aid by itself is not enough for strengthening the process of economic growth of the aided country. It should also be in a position to utilise it efficiently. Economic growth is expected to increase the aid-absorption capacity of a country'. This is because input-output relationships between various industries simultaneously generate both demand and supply flows and thus adds to the capacity of the economy to absorb fresh, productive, investment.

Thus we expect to find a developing country starting with a very low absorption capacity which, up to a certain stage, keeps increasing. Eventually the economy is able to generate adequate investment resources on its own and its need for foreign aid declines. 4.

Sharing Prosperity: It is argued that open economies are interdependent and complementary to one another. Even the developed economies cannot maintain their rates of growth unless the backward economies also grow. In other words, for preserving their prosperity, the developed economies must share it with the developing ones.

They have surplus capital and need avenues to invest it; and the poorer countries have low wage labour and primary products. Thus, through economic aid, the developed countries can ensure a more efficient resource-utilisation of the world as a whole. 5. Short Term Gains: Factually, however, developed countries are often tempted by the chances of short term gains. And for this reason, they frequently impose less favourable terms of trade upon the backward economies and try to exploit them in different ways.

It is for this reason that developed countries have failed to devote even ‘ A to 1% of their GNP for foreign aid. They have also tried to tie their aid to such projects which are more profitable for themselves than for the aid-receiving countries. Humanitarian considerations have played only a limited role in the flow of foreign aid.