

Why do dcs give
foreign aid to other
countries?



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The benefits of foreign aid have recently been under severe scrutiny. Several observers argue that a large portion of foreign aid flowing from developed to developing countries is wasted and only increases unproductive public consumption, what in my opinion I will like to extend in this paper and prove why so important and also main reasons of the given foreign aid is. Poor institutional development, corruption, inefficiencies and bureaucratic failures in the developing countries are often cited as reasons for these results. While foreign aid responds to political incentives, foreign direct investments are more sensitive to economic conditions in the receiving countries.

Interestingly, while foreign aid responds more directly to “ political” openness (democratization), FDI responds more to “ economic” openness (improvement in policy management, trade liberalization, better and protection of property rights).

The foreign aid or (development assistance) is often regarded as being too much in some cases, or wasted on corrupt recipient governments despite any good intentions from donor countries. In the reality, both the quantity and quality of aid have been poor and donor nations that have not been held to account. If I mention the main question again, why DCs does the foreign aid to LDCs?, I can said that, development aid most of the time is aid given by developed countries to support development in general which can be economic development or social development in developing countries. It is distinguished from humanitarian aid as being aimed at alleviating poverty in the long term, or rather than alleviating suffering in the short term.

If we go back a little in history, according to my search in 1970 the world’s rich countries agreed to give 0. 7% of their gross national income as official

international development aid, in annually terms. Since that agreement, donor countries despite billions given each year, rich nations have rarely met their actual promised targets after years. For example, the US is often the largest donor in dollar terms around the world, but ranks amongst the lowest in terms of meeting the stated 0.7% target.[1]

Furthermore, during the last decades aid has often come with a price of its own for the developing nations, for example taking developing countries in Latin America I can mention:

The aid is often wasted on conditions that the recipient country must use overpriced goods and services from donor countries and no other choice.

Most of the aid does not actually go to the poorest that would need it the most and other cases.

Aid amounts are dwarfed by rich country protectionism that denies market access for poor country products for some especial benefit, while rich nations use aid as a lever to open poor country markets to their products and create beneficial trades.

Large projects or massive grand strategies often fail to help the vulnerable because the wrong strategy.

The aid can be directly and indirectly in my point of view, for another specialist aid is a voluntary process transfer of resources from one and can be cash or in-kind. In my view it may have other functions as well depending the conditions that is given: can be as a signal of diplomatic approval or to strengthen a military resources, other aspects can be to reward a

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government for behavior desired by the rich donor, another reason is to extend the donor's cultural influence, can provide infrastructure needed by the donor receiver for resource extraction, and the last one can be to gain other kinds of commercial access. The other face of foreign aid and development can be for humanitarianism and altruism reasons, nevertheless, can be significant motivations for the giving of aid to developing countries. Another answer for the main question is that, the aid may be given by individual countries, international private organizations, or rich-donor governments, because the standards delimiting exactly the kinds of transfers like cash or in-kind of id can vary..

In my opinion development aid or development cooperation is aid given by rich governments and other developed countries agencies/organizations to support and help do develop the economic, environmental, the social and political issues of developing countries. The humanitarian aid can be by focusing on alleviating poverty if the aid comes in the long term, rather than a short term response. To relate the aid with the development cooperation, which is used, for example, by the World Health Organization, they used to express the idea that a partnership-relation should exist always between donor and recipient country, rather than the real situation in which most of the relationship was dominated by the wealth and specialized knowledge of one side of the case. According to my research, most of the development aid comes from the western industrialized countries but in other cases poorer countries also contribute with aid with agricultural supplies. To try to explain better the answer for the main question in this paper aid may be bilateral and multilateral, if it is bilateral happens when: the given is from one country

directly to another; and multilateral: when is given by the donor country to an international organization such as the World Bank (WB) or the United Nations Agencies (UNDP, UNICEF, UNAIDS, etc.) which in many cases they are the ones who distributes it among the developing countries. The proportion is currently about 70% bilateral 30% multilateral, according to the World Bank statistics[2].

Is consider by the WB, about 80-85% of developmental aid comes from government sources as official development assistance (ODA). The remaining 15-20% comes from private organizations such as “ Non-governmental” (NGOs) and other development charities missions. In recent years we have seen how the development aid has no effect on the speed with which countries develop, like in Latin America or in Africa. After reading some articles I found one criticism has been that Western countries often project their own needs and solutions into other societies and cultures. In my response, the western help in some cases has become more ‘ endogenous’, what I mean that needs as well as solutions are being devised in accordance with local cultures and issues. For example, sometimes projects are set-up which wishes to make several ethnic groups cooperate together but the bottom approach is actually how know better the conditions and situation of life and know where they need directly the aid. While this is a noble goal, most of these projects fail because of this intent in the wrong aid distribution, for example corruption from weak governance.

It has also been argued that help based only on direct donation creates in developing countries dependency and corruption, and this no transparency has an adverse effect on local production of goods. As a result, a shift has

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taken place towards aid based on activation of local assets and stimulation measures such as microcredit and debt reliefs.

Taking other points, in my criteria, aid has also been ineffective or not successful in young recipient countries in which, the ethnic tensions are strong: sometimes ethnic conflicts have prevented efficient delivery of aid and their results. In another cases, the western surpluses reflect the resulted from faulty agriculture or other policies that have been dumped in poor countries as donation, thus wiping out local production and increasing dependency. In several cases, the loans coming from developed countries to developing countries were considered irretrievable (for instance because the funds had been embezzled by the top down approach or high positions who has already died or disappeared from the beginning position), have been written off by donor countries, who subsequently booked this as development aid.

According to Rapley's book[3] is somewhat of an anomaly in the recent discussion of foreign aid, which has focused almost exclusively on income transfers from wealthy to poor countries for development purposes. It is a positivist, historical exception in a field dominated by prescriptive titles; she seeks to explain what has been, not what should be. Rather than offering massive aid-based development plans as exemplified by Jeffrey Sachs's End of Poverty[4], or explaining why such plans are futile as in Rapley takes an objective, qualitative look at how foreign aid has evolved.

After discussing the main question from this essay, arise another sub-questions like: How does the foreign aid affect the economic growth of

developing countries? In my opinion this is a question which has drawn the attention of many scholars and economists over time. For example Snyder (1993) shows the positive relation between aid and growth when taking country size into account. Burnside and Dollar (1997) they claim that aid works well in the good-policy environment, which has important policy implications for the donor community, multilateral aid agencies and policymakers in the recipient countries. Developing countries with sound policies and high-quality public institutions have grown faster than those without them, I found that the 2.7% per capita GDP and 0.5% per capita GDP respectively. One percent of GDP in assistance normally can translate to a sustained increase in growth of 0.5% per capita. Some other countries with sound policies received only small amount of aid yet still achieved 2.2% per capita growth yet. In other words the the good-management, high-aid groups grew much faster, at 3.7% per capita GDP (World Bank, 2008).

In my view, the foreign aid works well in a good policy environment and a poor country with good policy should get more aid because they know how to work with a transparency process to generate progress, which is not always the case in reality. A well-designed aid plan (most of the time comes from the rich-donor countries) can support effective institutions and governance by providing more knowledge, capacity, transferring technology and better skills. Therefore, the aid is normally more effective when it facilitates efficiently and timely better reforms triggered by the local authority.

The foreign aid has a strong positive impact on economic growth in less developed countries (another reason why is important this kind of donations

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coming from developed countries), when the state intervention is not taken into account. When the state intervention variable is included in the regression of time, the effect of foreign aid gets statistically weak over time. Moreover, foreign aid negatively affects the domestic savings rate whereas per capita income, country's size and exports positively affect it and the most important their domestic markets.

After I analyze the main reasons mentioned by Sachs (2005)[5] why DC's gives foreign aid to LDC's and what are the similarities of Developing countries I came with some particular points and common characteristics like LDC's has: first low standards of living, this is characterized by low incomes, the large inequality, very poor health, and inadequate education. Second, the low levels of productivity. Third the high rate of population growth and dependency burdens. Four, the substantial dependence on agricultural production and primary-product exports in grow. The imperfect conditions of the market and limited information in local grow. And last one the subordination, dependence and vulnerability in international relations. The Table 1 will show the percentage of population living below the poverty line (US\$1 per day) in different regions of the developing world from 1987 to 1998. According to the table in South Asia and the Sub-Saharan Africa reflects the largest proportion of poor people in the world, 40. 0% and 46. 3% respectively in 1998. East Asia & the Pacific and South Asia performed very well in poverty reduction over this period, while Sub-Saharan and in Latin American countries made very little improvements.

Case

To explain more about this topic, I will raise up a specific case, after nearly 50 years of U. S. spending on foreign aid, the purposes and worth of that spending remain issues of debate in the Congress. The financial assistance was given for strategic, political, economic, or even cultural reasons. This case focuses on aid that is given to promote economic growth and improve the human welfare in the developing countries of Asia, Africa, and Latin America.

Determining what role, the foreign aid has played in promoting growth and development is difficult for many reasons all over the world including small countries populations. First, the dynamics propelling material and social progress are extremely complex historical processes and they are influenced by many factors, some of them possibly remaining unidentified but only one of which is foreign assistance. Second, a great social conditions and economic trends may occur together with the flow of international aid, which at the end makes determining causality elusive. Third, there is no clear and universally accepted framework for evaluating the impact of various sorts of aid activities in international trades also. Finally, the data for a research effort designed to determine the role of foreign aid or any other factor are considered problematic.

After discussing why DC's gives foreign aid to LDC's, I think it's important now to raise the next question, " What is the role of foreign Aid and how it's help to development?" I think many different factors contribute to development, like unique historical, geographical, or cultural influences may play an important role in determining whether or how fast a country develops in some determined period of time. In my opinion it may promote

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or hinder development, this is depending on the environment in which that aid is used and the conditions under which it is given (trade-benefits). Aid given to countries that are well governed and have adopted market-oriented economic policies may provide a boost to their development. They are factors such as a climate that is inhospitable to productive agriculture is often beyond the control of policymakers in developing countries or their foreign aid donors.

The way donors give foreign assistance may also influence its usefulness in promoting economic and social development (especially countries like Korea, Spain, US, and other Europe countries). Aid may be given to solve the effects of natural disasters, to protect the donor nation's political and strategic interests between the two nations, or increase the donor's exports. But when aid is given to achieve more than one objective, it may not be as useful to the recipient's growth and development. For example, when aid goes to an ally to further strategic objectives, the example, U. S. aid went to Honduras in Central America, in the 1980s (WB, 1998), it /target may reinforce poor economic choices. In addition to this, other economic or trade policies sometimes undermine the developmental goals of a donor's foreign assistance program. Another case occurred when the United States set quotas on textile imports from Bangladesh shortly after providing foreign assistance to its government to expand its textile exports, (WB, 1998).

Now I will like to mention the case of Latin America and the Caribbean (LAC), because this is where I'm coming from. LAC is a region of vast diversity, with around 526 million people who speak many different languages and dialects. It includes the entire continent of South America, the Central American

isthmus, the Caribbean islands and Mexico as a potential. LAC is considered the most urbanized region in the developing world, with three-quarters of its people living in and around cities, but natural resources and agriculture remain crucial elements of many LAC economies.

Despite immense resources and dynamic societies, deep real cases inequalities of wealth persist in most LAC countries, with almost one-third of the region's people living in poverty and extreme poverty. The economic performance has not been very good with the instability of some leading economies like Brazil and Argentina who are considered big potential in South America. " Over the period 1987-1998, the share of the population living on less than US\$1 per day in this region remains almost unchanged, i. e. 15. 3% and 15. 6% in 1987 and 1998 respectively". (WB, 2001)

Table 1. Income poverty by region

Region

Share of population living on less than US\$1 a day (percent)

1987

1990

1993

1996

1998

East Asia and Pacific Excluding China

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26. 623. 9

27. 618. 5

25. 215. 9

14. 910. 0

15. 311. 3

Europe and Central Asia

0. 2

1. 6

4. 0

5. 1

5. 1

Latin America and the Caribbean

15. 3

16. 8

15. 3

15. 6

15. 6

Middle East and North Africa

4. 3

2. 4

1. 9

1. 8

1. 9

South Asia

44. 9

44. 0

42. 4

42. 3

40. 0

Sub-Saharan Africa

46. 6

47. 7

49. 7

48. 5

46. 3

TotalExcluding China

28. 328. 5

29. 028. 1

28. 127. 7

24. 527. 0

24. 026. 2

Table 4

Source: World Bank World Development Report 2000/2001, Attacking Poverty

To finalize this essay I will like to mention, the kinds of effects has been showing so far in developing countries about foreign aid. The least developed countries receive very little foreign direct investment (FDI) and therefore have to rely on their own scanty savings and on aid to finance their development. In contrast to FDI the real amount of aid has not increased with the acceleration of globalization. The efficacy of aid in economic and social development is doubted. Left sees it as a form of further incorporation, domination, and, as a consequence, exploitation of developing countries by the rich countries. While the right believes that aid undermines individual initiative and so far make slower the development process. (Goldin, I. & K. Reinert, 2007).

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In my conclusion even though the relationship between globalization, development, poverty and foreign aid is not always clear, there are many different opinions. Where the globalization on the one hand has only increased the focus on the market in development theory and practices and on the other hand it has given different scholars with different opinions the possibility to address these exclusive market mechanisms. Whereas this help promotes helpful solution for Africa and promoting the increase of aid, assistance, and debt relief. Their argument being that the impact of aid on growth and poverty reduction has more than doubled over recent years but even though it seems to be on a different page, both argue that developed countries must open their markets for products from developing countries in better conditions for trade. The world economy has globalized and even some other aspects are more integrated like international trade. But as long as the poorest countries are not integrated to work in their own development process, the world has not benefitted or learned from globalization especially from developed neighbour countries, who can give support in many conditions to work from a same goal, the success of development.

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