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AIDING THE THIRD WORLD

An authority on economic affairs gives the facts about aid to under-developed countries and discusses the attitude marxists should adopt.

THE MOST EXPLOSIVE 'statistic' in the world today is that the distribution of world income is becoming more and more unequal—for example, that Asia's share in world income has fallen from 17.3 per cent in 1938 to 14 per cent today. The total flow of economic 'aid' to the underdeveloped countries, which is supposed to halt the trend to inequality, amounts to a mere three per cent of the national income of the under-developed world.

One way of improving this situation is for the workers' states to step up 'aid without strings' and for socialists in capitalist countries to demand that bourgeois governments share the burden of a transfer of wealth from richer to poorer countries.

For marxists to advocate such a course, however, requires prior analysis of what would happen in the circumstances of today's concrete historical conditions if this kind of strategy were to be implemented. Among the vital questions to be asked, the following seem crucial to a marxist analysis:

What happens when an ex-colonial country receives aid?

Should economic aid aim to raise the absolute level of capital assistance or have the wider aim of bridging the gap between developed and 'developing' countries?

What is the inter-relationship or dialectical interplay between capital inflow, 'aid' and indebtedness?

What are the short-term and long-term disadvantages of 'bilateral' aid compared to 'multi-lateral' economic aid?

What are the pre-conditions (class structure of the society, size of public sector) for the aid to be effective in terms of raising mass living standards and encouraging independence from the penetration of imperialism and neo-colonialism?
What is the present policy of neo-colonialist bodies (bourgeois governments, World Bank, etc.) and of workers' states with regard to aid, and how should they be assessed?

Impact of Aid on Colonial and Ex-Colonial Societies

From the purely quantitative point of view, foreign aid can be seen as equivalent to a positive shift in the terms of trade, provided the country’s capacity to import is increased. Against this, however, foreign credits (especially from bourgeois sources) must be repaid. Moreover, unless international arrangements are made to reduce fluctuations in the quantity of exports sold by underdeveloped countries and to stabilise the prices at which they are sold, these adverse trends can cancel out the effects of an inflow of foreign aid.

That is what has been happening. Data collected by various United Nations agencies point to the stark fact that the ‘real’ inflow of foreign capital to the developing countries in the last decade was offset by the growing burden of servicing foreign debt and the losses caused by adverse shifts in the terms of trade. During the United States recession in 1957-58, falls in the demand for raw materials and staples from the ‘Third World’ and the consequent disastrous shift in terms and volume of trade against underdeveloped countries cancelled out all ‘aid’ that had hitherto been given by multilateral agencies. Today these countries are paying their debts at a rate of 5 billion dollars a year as against less than one billion a year ten years ago. Many countries in the ‘Third World’ have to devote 50 per cent of the value of their exports to the amortisation of their foreign debts. The total foreign debt of the countries concerned which stood at 10 billion dollars in 1955 is expected to reach 90 billion by 1975.

Another danger arises from the class structure of demand for goods in the ‘receiving’ countries. While, theoretically, an inflow of foreign aid may be instrumental in stepping up the rate of growth in a country like India faced by the barrier of difficulty in exporting more and importing industrial goods, this result may not follow if the foreign aid is dissipated in additional consumption of luxury and ‘non-growth’ goods.

In evaluating foreign aid we should therefore pay due attention to its double-sided aspect, by asking:

to what extent has the inflow of foreign capital improved the recipients’ balance of payments position and has the improvement been used to remove the bottlenecks in the supply of capital goods or of luxuries?

were the additional financial resources made available from abroad instrumental in raising the rate of economic growth by allowing
increased investment above the level governed by domestic savings or did they merely finance an increase in the consumption of luxuries or a higher volume of social services?

'Aid' may be considered appropriately utilised if it adds to investment other than that increasing the output of goods for consumption by ruling class groups and if it adds to consumption of essentials by the masses and/or the output of social services.

It defeats its own purpose if it releases local savings for an additional consumption of luxuries and reduces the pressure to tax higher income groups or if it fosters investment leading to an increased output of luxuries.

Then, how much aid can a country actually absorb? Two factors at least set a ceiling on the 'absorptive capacity' of the recipient country. On the one hand there is the problem of the financial capacity to service or repay the debt; unless new outlets of exports are created, servicing the debt will absorb a higher and higher percentage of foreign exchange earnings. We should never lose sight of the fact that credits are a form of postponing the payment for a delivery of goods and this payment must ultimately take the form of an export.

On the other hand, capacity to absorb foreign aid depends greatly on the availability of skilled manpower of different grades and types. That is why technical assistance and supply of foreign technicians as well as domestic investment in human resources are crucial complements of foreign economic aid in the form of credits, loans, capital grants. Political difficulties can arise in recruiting foreign technicians whose withdrawal can be disastrous.

All the above factors point to a significant conclusion: the role of foreign aid can only be effective (and, indeed, can only be evaluated correctly) in the context of an economic plan and a significant public sector which is free of 'free enterprise' interference. This point, obvious to marxists or to economists from countries with experience in comprehensive planning, is being increasingly accepted by authorities (such as J. K. Galbraith, United Nations Conference on Trade and Development, etc.) who for a long time denied the need to plan.

These considerations need to be borne in mind in evaluating capitalist economic aid to the underdeveloped countries, which is shown by the United Nations World Economic Survey for 1965 as follows:

All outflows to developing countries 1955-59 $6,097m.
1960-64 $14,716m.
Bilateral Aid and Multi-Lateral Aid

The case for the kind of bilateral aid given by socialist countries is a simple one. The ‘developing’ countries have good reasons to prefer aid coming from public funds in donor countries. Such aid reduces possible pressures on the part of powerful private corporations which want to operate and seek super profits in the developing countries. Developing countries, by contrast, want to expand their public sectors—a project opposed by foreign corporations and neo-colonialists. ‘Bilateral aid’ from such sources has invariably been associated with political strings or with economic strings often wrapped up in financial forms that are not easily discernible—‘wrapping’ which is also becoming unpopular and inappropriate.

The Australian Government has concentrated on bilateral rather than multi-lateral forms of aid, but this has been mainly due to its hostility to the UN and such multi-lateral agencies as the Technical Assistance Office, the United Nations Special Fund, and the International Development Fund. Its attachment to bilateral aid is likely to increase as the phoney ‘civil aid’ to Vietnam policy is stepped up and as Australia becomes more intimately involved in the international political chess of the Pentagon.

In a more perfect world there would be a strong case for multi-lateral aid forms which better co-ordinate the variety of sources of international assistance to the underdeveloped world. In the present era, however, with an offensive by neo-colonialism through bilateral aid with strings attached, the socialist countries have little alternative but to reply with bilateral aid from their own public sectors to the public sectors of ‘third world’ countries.

An Indian economist, writing in the Economic Weekly, Bombay (April 4, 1964) noted that the World Bank insists on the ‘Bankability’ of projects to be financed, demanding that projects in the public sector should be tested purely by profit criteria.

Since 1964 the World Bank, as the major lever of neo-colonialism and US political interference in the ‘third world’ of Africa, Asia and Latin America, has been much more aggressive in its interference. It reserves the right to inspect and amend the development plans of countries—even those not on the capitalist road. It demands the setting up of foreign corporations in sectors hitherto in the public sector (Indian fertilisers), as well as the reduction of import controls, devaluation, and other measures aimed to weaken central economic planning and to promote the private sector against the public sector.

The Indians feel they are being bludgeoned by Washington into self-help measures which New Delhi considers unduly onerous. These include a further shift from industrial development to agriculture, acceptance of stiff terms
from foreign oil companies for construction of fertiliser plants, and de-control of food prices and distribution. (Editorial in *New York Times*, 22.1.67.)

The World Bank follows in more indirect and sophisticated ways, the more openly brutal policies of the US Government. A similar role has been played by the International Monetary Fund in Indonesia, Argentina, Chile and Brazil.

Many humanitarians (such as people involved in the ‘Freedom from Hunger Campaign’) tend to welcome any kind of assistance to the underdeveloped world without carefully analysing the activities of the World Bank and their own bourgeois governments in the aid field; invariably also they fail to examine the class structure which ultimately determines whether such aid is used. It is up to Marxists to point to these realities whenever the drums-beats of such campaigns are heard. Otherwise humanitarians can be misled into believing that effective assistance is being given when in fact it is not; otherwise the ‘capitalist road’ of Asia can be assisted rather than the ‘socialist road’.

Soviet aid is crucial in this context, and its beneficial effects can be introduced into the discussion of this whole question. Professor K. N. Raj of the Delhi School of Economics, in his 1965 lectures *Indian Economic Growth: Performance and Prospects* sums it up this way:

> It is only in the case of loans from the Soviet Union that aid has been closely tied up with trade, and this has produced good results. Though the annual servicing burden on Soviet loans has been nearly 12 per cent, the rapid expansion in exports to the Soviet bloc has made it possible to meet liability without much difficulty. In fact Soviet aid is really in the nature of trade credits tied only to more trade and this is advantageous to both the lending and receiving countries. (p. 23).

The recent downward trend in the cost of foreign credits to underdeveloped countries can, actually, be ascribed to the action of the Soviet Union and other socialist countries which not only broke the western monopoly for the supply of industrial equipment to the former colonial and dependent countries (Soviet exports of complete industrial plants to credit-receiving countries rose from $1m. in 1955 to $300m. in 1963) but introduced and generalised the practice of giving loans repayable in 12 years and bearing a low rate of interest of no more than 2.5 per cent.

Socialist bloc aid, especially since 1955, has been considerable and has increased in the South-East Asia region: in 1955 the total amounted to $145m. rising to $275m. in 1964. The total for 1955-64 was $2,579m.

By contrast, “what obviously distinguishes Australia from the major donors is that she is small. On a generous reckoning Australia is this year contributing no more than 1½ per cent of the world total of aid to developing countries.” (Arndt, *Joseph
Fisher Lecture, 1964). Australian expenditure on foreign aid of all forms is $100m., or two-thirds of one per cent of the national income. This places Australia, among Western Nations, well behind France (1.9 per cent) and two smaller comparable countries, Belgium (0.9 per cent) and Holland (0.8 per cent)—and two-thirds of official aid is net government expenditure by the colonial authorities in New Guinea! The obligation assumed by developed countries at the UNCTAAD conference in Geneva was to raise their contribution to at least 1 per cent of national income.

Australia is far from achieving this target, and only a third of the Australian contribution goes to Asia—$13m. to Colombo Plan and the South-East Asia Treaty Organisation plus a part of the $19m. contribution to the World Bank and UN agencies.

Conclusions

There are considerable economic benefits for ‘neo-colonialist’ capital exporters from ‘aid’. Profits can increase because unused capacity in the domestic economy is reduced by the giving of capital goods in the form of aid. Because the economic growth of capitalist advanced countries can be improved by the giving of aid, or at least their economic health can be maintained, this ultimately prevents any reduction in the gap in the rates of economic growth between donor and recipient countries. It is therefore unlikely that a ‘bridging of the gap’ is feasible, and ‘developing’ countries will never ‘overtake’ the developed countries while ever capitalism retains any industrial dynamic in the West. The most that can be achieved is a higher absolute level of income per capita in Asia, Africa and Latin America. Ultimately this depends on massive flows of aid from the socialist countries that will help to strengthen the public sector and social investments in recipient countries.

The low rates of interest barely cover the expenses of the organisation entrusted with preparation and implementation of the aid programs (G. M. Prokhorov, Peaceful Co-existence and the Underdeveloped Countries, Moscow 1965, p. 132). It can be expected, therefore, that their current re-evaluation of aid programs will place less importance on aid as loans and credits and more stress on ‘aid through trade’—to help ‘developing’ countries to exchange domestically produced commodities for socialist investment goods, thereby helping the growth of traditional exports. The trend shown in the statistics below can be expected to alter and the ‘aid’ will increase in size, while being more unobtrusive and more closely intertwined in trading agreements.

Total commitments of bilateral economic assistance to underdeveloped countries can be seen to have increased substantially,
whether we compare the figures for particular years, or the totals over four-year periods. Thus:

(a) 1955 - $162m. 
    1964 - $1246m. 
(b) 1955-59 - $2253m. 
    1960-64 - $3776m. 

Total $6029m.

The volume of assistance to individual countries is indicated by the total credit of $1014m. extended to India by the socialist countries during the period 1955-64.

The strengthening of the public sector through aid and favorable trading arrangements with the centrally-planned economies is the *sine qua non* of successful development through aid. The result of 'Freedom from Hunger' donations, IMF loans, World Bank loans and Western bilateral aid, has, by contrast, been mainly the propping up of a number of conservative, feudal and fascist governments which can be relied on to respect foreign property enclaves. In short, the aim or result of most of these aid programs has been to perpetuate the system that makes aid necessary. Much of the aid has been on financial and political terms which are building up a Latin-American situation for the future in Asia and Africa.

Marxists can certainly put pressure on bourgeois governments to increase aid flows to the public sector of the recipient country. Ultimately, however, only the aid of the socialist world will be able to get the job done in a way that ensures national independence and expanded trading opportunities for 'developing' countries.

**SINCE THE ABOVE WAS WRITTEN, the Conference of ECAFE (Economic Commission for Asia and the Far East) has been held in Tokyo. The following extracts from the discussion on "The Economic Situation in Asia" are typical of the views of many delegates:**

I. G. KHAN (Pakistan) warned that in Pakistan and other Asian countries, debt accumulation threatened to reach a stage at which loans would be used only to repay debts.

UBA SHWE (Burma) stated that Burma’s efforts at increasing the production of primary commodities had been largely frustrated by the twin burdens of debt services and the higher cost of plant equipment and fertiliser.

HIROSHI KITAMORÁ (Chief of ECAFE Research and Planning Division) said the ECAFE region as a whole was falling behind what had seemed to be reasonable expectations of development compared with the preceding five years, a slowing down rather than a speeding up of development.