

The Efficacy and Geopolitics of Foreign Aid: The Critical-Liberal Debate in Perspective.

Mauro Moracchioli Philadelphi ^a

^a International Relations, Pontifical Catholic University of São Paulo, São Paulo, Brazil, mauro.mophi@usp.br.

Abstract. The Foreign Aid, a subject inherent to International Political Economy, lies at the heart of intense and long-standing academic debates. Both the economic effects of Foreign Aid on the recipient country and the geopolitical interests of the donor country are objects of study in these highly contested discussions. By mapping some of the academic production in the fields of Economics and International Politics, this paper seeks to understand the gradual shift in narratives that has permeated recent decades. The once dominant perception of Foreign Aid as a tool for development detached from political interests is now nearly extinct. In its place, analyses have emerged that emphasize domestic developmental efforts and criticize the existence of strong donor-recipient relationships.

Keywords. Foreign Aid, Economic Development, Aid Effectiveness, Political Interests.

1. Introduction

There is, in the interdisciplinary field between Economics and International Relations, an extensive debate around the use of Foreign Aid for developmental purposes. Within this debate, there are numerous studies that point to cases like Haiti, Somalia, and the Democratic Republic of Congo to demonstrate the absence of a relationship, or even the existence of a negative relationship, between Foreign Aid and economic growth. After all, how could a country receive Foreign Aid for decades and still not show significant signs of economic growth? This perspective, here referred to as critical, regarding the developmental potential of Foreign Aid, however, had a long gestation.

In the decades following the end of World War II, inspired by the success of the Marshall Plan and based on the Harrod-Domar economic growth model, academics and statesmen upheld the then-dominant discourse that Foreign Aid was the primary cause of development. For the proponents of this strand, here referred to as liberal, Foreign Aid would be essential for development, as it addresses the three major demands of developing countries, namely: lack of capital, good external exchange, and technical knowledge [1].

The aim of this text is to conduct a brief literature review on the extensively debated issue of the effectiveness of Foreign Aid. The central question is whether foreign aid would be an effective tool in

promoting economic development. By mapping and contrasting the approaches of the main exponents of each strand, we hope to identify the current academic understanding, knowledge gaps, and possibly, point out new paths for future studies.

Ultimately, understanding the relationship between Foreign Aid, economic development, and international politics is essential for the formulation of appropriate public policies. In order to fulfill this purpose, the analysis and literature review presented here are based on primary and secondary sources, such as official documents, reports, and academic research, etc.

2. Brief definition of Foreign Aid

The concept of Foreign Aid is broad, and generally entails the transfer of capital, goods, and services from one country to another. It is usually defined according to its origins - public or private - by the objectives of its implementation - which can be military aid, humanitarian aid, financial assistance, emergency assistance - and regarding the execution channel - such as bilateral and multilateral aid - each with its uses and peculiarities.

In this text, the emphasis is given to Foreign Aid for Development, also known by the term Official Development Assistance (ODA), or South-South Cooperation (SSC), or even International Development Cooperation (IDC). These terms should be considered here as interchangeable synonyms, although there is a difference between them, which

will be elucidated in the item "Major Debates in the field of International Politics."

The first widely accepted definition of Official Development Assistance dates back to 1969 and was made by the Development Assistance Committee (DAC), subordinate to the Organization for Economic Cooperation and Development (OECD). Until 2017, when there was a review, it could be read as:

[...] those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are: (1) provided by official agencies, including state and local governments, or by their executive agencies and; (2) each transaction of which: (a) is administered with the promotion of the economic development and welfare of developing countries as its main objective and; (b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent) [2].

3. Major debates

3.1 In the field of economics

The question of the effectiveness of Foreign Aid is disputed by two antagonistic perspectives. If, on one hand, the Liberal strand - supported by authors such as Max F. Millikan, J.K. Galbraith, W.W. Rostow, P.N. Rosenstein Rodan, Chenery, Strout, Hans Singer, and Raul Prebisch - believes in a positive correlation between Foreign Aid and economic growth, on the other hand, the Critical perspective, spearheaded by authors P.T. Bauer, B.R. Shenoy, Dambisa Moyo, T.J. Byres, Michael Lipton, Milton Friedman, and William Easterly, sees Foreign Aid as causing corruption, indebtedness, the perpetuation of bad political regimes, the increase of government bureaucracy, and institutional failure in recipient countries [1]. Within the debate in the field of Economic Sciences, both strands discuss through growth models what are the causes of underdevelopment and how to overcome it.

For instance, liberals identify the lack of "capital, foreign exchange, and technical knowledge" as the three main barriers responsible for preventing, from the initial stages, the economic growth of a country. In this sense, Pankaj [1] shows how, in response to each of these gaps, diverse economic approaches emerged, supposedly capable of solving the problem.

One of these approaches, which emerged in the post-World War II era, started from the Keynesian assumption that capital accumulation and savings formation are the two fundamental driving forces for the functioning of national economies. Later, Harrod and Domar brought this perception of the primacy of capital into the forefront of economic and developmental discussions. Thus, having diagnosed the supposedly limiting factor to development, liberals prescribed the cure. For the lack of capital, seen in this "capital bottleneck theory," target countries should receive financial aid in order to increase their international reserves, boost investment, and promote the economic development of the nation [1].

Another way discussed by liberals in which Foreign Aid could tackle underdevelopment regarded "foreign exchange". This time, the main obstacle and structural limitation observed was the progressive deterioration of the terms of trade of primary goods in the commercial relations between center and periphery. Due to the low revenues from agro-exporting economies, developing countries would be unable to make the costly transition to an industrial economy. This motivated the emergence of a second economic model, which recommended that developing countries finance their transition from a commodity-based economy to an industrial one using the resources from Foreign Aid [1].

The third and final liberal approach aims to solve the lack of technical knowledge. This concern had clear origins in Schumpeterian formulations about the correlation between development and technological innovation. In the specific case of debates around Foreign Aid, liberals began to identify the low capacity of capital absorption in developing countries as a barrier to development. In this scenario, programs focusing on teaching skills and human capital formation would be fundamental to increase the absorption capacity of these economies [1].

The same criticism made against some branches of economic thought finds an echo here, especially regarding the compartmentalization of knowledge. Although each author starts from their own premises, research objects and methodologies, they somehow always seem to arrive at a formula deemed of universal and automatic application. After all, as stated by Oliveira and Gennary [3], it is customary for such evolutionist theories in Economics to summarize a "set of requirements considered universal and necessary for development" [3]. The risk they run is to treat development as a series of fragmented, strictly economic issues, separated from the broader social and political complexity.

With a diametrically opposite stance to the liberal one, proponents of the critical perspective argue that the availability of capital is not the only, nor the most important, requirement for development. They argue that the problems faced by emerging countries go beyond the difficulty of accumulating savings and promoting investment. Emblematic issues such as corruption, indebtedness, bad public management, government bureaucracy, and incompetence of financial institutions are not solved by the simple injection of foreign capital; on the contrary, for Easterly [4], these problems are aggravated by the unregulated provision of Foreign Aid. Another central point in the argument of the critical strand is spearheaded by Bauer [5] when he states:

If all conditions for development other than capital are present, capital will soon be generated locally, or will be available to the government or to private businesses on commercial terms from abroad. [...] If, however, the conditions for development are not present, then aid - which in these circumstances will be the only source of

external capital - will be necessarily unproductive and therefore be ineffective. Thus if the mainsprings of development are present, material progress will occur even without foreign aid. If they are absent, it will not occur even with aid [5].

The excerpt above shows a key notion of the critical thought, being that it places endogenous development efforts above all other development-promoting factors. This is precisely what Deaton (2013) called the central dilemma of foreign aid, that is, the idea that "When the 'conditions for development' are present, aid is not required. When local conditions are hostile to development, aid is not useful, and it will do harm if it perpetuates those conditions" [6].

A common strategy in academic circles, whether in the field of Economic Sciences or in International Politics, is the adoption of historical examples to illustrate the observed phenomena and hypotheses. In the case of texts from the critical strand, examples of countries that have achieved development without any foreign aid and of countries that, despite massive amounts of Foreign Aid, have never achieved significant economic growth, are frequent.

Today, the critical perspective is predominant, and there is increasingly consensus about the ineffectiveness of Foreign Aid in promoting development. Indeed, this seems to be the logical conclusion, corroborated by the findings of Yiew and Lau (2018) regarding growth trends observed in 93 emerging countries. According to the authors' research, Foreign Aid flows did not have significant effects on recipient countries, especially when compared to other variables such as Foreign Direct Investment (FDI) and population size [7].

3.2 In the field of International Politics

The dichotomy established between liberals and critics is not restricted to the debate in the field of Economic Sciences. If before the emphasis was on the factors responsible for development, now it is attributed to the interests and dynamics of center-periphery power involved in the theme of Foreign Aid. After all, as Apolinário [8] well stated, the questioning "about the reasons that lead states to provide their scarce resources to other countries arises naturally" [8].

For liberals, this reason would be interdependence. They uphold the perception that Foreign Aid is a fundamental mechanism of international cooperation for solving global problems that transcend national borders, such as disease control, reduction of environmental degradation, and migration controls, among others [9].

In liberal texts, regardless of the topic at hand, it is common to find the idea that, in an increasingly interconnected capitalist world, promoting prosperity in neighboring economies would have a beneficial effect on the system as a whole. This belief in peace and prosperity as motives behind the

provision of Foreign Aid, coupled with the presumption of the socio-political structure as permanent, have sometimes led liberals to be labeled as utopians.

At the other end of the debate is the critical strand, which sees strong donor-recipient power relations in this supposedly innocent dynamic. In order to enable a better understanding of the intricacies involved in the debate in the field of International Politics, similar to what Lancaster [9] did, this text divides the critical perspective between Realist and Marxist views.

Realist authors start from the widely known assumption of international anarchy to identify Foreign Aid as an important tool in promoting national interests. The realist thought emerged and gained strength in the context of the Cold War, a period in which the United States was clearly applying Foreign Aid to achieve its goal of thwarting communist advances. Another considerably more recent episode studied by such realists was the September 11th attacks, which inaugurated the war on terror and resulted in a new wave of strategically guided aid.

Thus, Foreign Aid flows would not be decided by chance, nor would they be the result of momentary decisions or the altruistic interests of the donor country, as liberal thinkers would have it. On the contrary, the choice of recipient countries, the amount allocated, and the very model of Foreign Aid would be subject to the cold strategic calculation of the donor, often including requirements for structural adjustments and conditionality mechanisms that generate dependency and trigger unpredictable consequences in recipient economies [10].

The foreign aid provided by the United States, one of the largest and most traditional ODA donor countries, is a great example of this calculation and its numerous political determinants. These factors vary according to the region of application and the different foreign policy agendas of the donor because, while political-economic issues predominate in Asia, in the Middle East, the security-development nexus is evident. The security agenda can also be easily observed behind the US Foreign Aid flows to Latin America, with a focus on combating narco-terrorism and international crime [11].

Regarding the realist view, Lancaster [9] makes sure to emphasize that:

Aid's impact on [poor countries] is [seen as] incidental or instrumental—as a means of increasing the security of the donor nation, for example, through reducing the temptations of communism or terrorism [9].

It is particularly in this last aspect, presented above, that realist and Marxist authors differ. While critical-realists consider the possibility of development, as long as it aligns with the interests of the donor country, critical-Marxists argue that the ultimate

interest of donors is always to establish dominance over recipient countries and perpetuate historical dependencies. According to the Marxist view, Foreign Aid brings with it strong traces of neo-imperialism, being the donor-recipient relationship just another "[...] way to transform economic asymmetries into political hierarchy" [8].

The emblematic case of IMF structural adjustments can be considered an example of this, as it conditions the provision of Foreign Aid to macroeconomic changes, such as trade reforms, economic liberalization, and privatization [12]. One of these adjustments could be observed in Haiti in 1995 when the United States conditioned the provision of Foreign Aid to the opening of the rice market. Strong and subsidized foreign competition destroyed national production and helped forge historical dependency.

It is not surprising that food aid in particular is presented by critics to demonstrate the negative effects of Foreign Aid on national economies; after all, it can hinder endogenous growth efforts and reduce the profits of already vulnerable national producers. The case study conducted by Lima & Lourenço [13] goes in this direction, considering the US school feeding program in Haiti in 2016 as the "latest in a long history of U.S sponsored programs that have destabilized Haiti's agricultural sector, driving the nation further into poverty while increasing its dependence on foreign aid"[13].

In the same way, Sodge [10] demonstrates how, in the United States, food aid is linked to the interests of a so-called "iron triangle," composed of agribusiness, shipping companies, and NGOs. This group maintains influence over the country's food aid policies, building a so-called Aid Industry while gaining facilitated access to markets and privileged terms of trade [10].

The process of extensive verticalization, as well as the proliferation of institutions, agents, and interests involved in the aid chain, also reflect the principal-agent problem. According to Easterly [4], while domestic governments receive direct feedback from their population regarding the services provided, the same does not occur with foreign aid. Physical and bureaucratic distance prevents taxpayers in donor countries from perceiving the effects generated by their aid in the global South, whether beneficial or harmful [4].

Easterly [4] continues by identifying two other forms of aid that are widely considered ineffective: tied aid and technical assistance. Tied aid, a clear mechanism of control, imposes the condition that a portion of resources be spent according to a predetermined plan, usually on the purchase of goods or services from the donor country itself. On the other hand, technical assistance, although aimed at increasing knowledge, skills, and improving human capital in developing countries, is criticized for also reflecting the donor's priorities rather than those of the recipient [4].

It is in this sense that the aforementioned difference between Official Development Assistance (ODA) and South-South Cooperation (SSC) lies. The former involves asymmetric economic and political interactions, the latter refers to symmetry, mutuality, and unconditionality of Foreign Aid. Especially in a context marked by the accommodation of emerging powers, the global south gains voice and new demands arise for a more horizontal and integrated approach to foreign aid, in which the recipient countries play the prominent role of leading the process, abandoning the passive position of mere beneficiaries. Certainly, whether this shift truly materializes or remains confined to the realm of ideas is yet to be seen.

4. Conclusion

Finally, after analysing what both theories say regarding the effectiveness of Foreign Aid, we get to a crucial point of understanding: that the liberal perspective, after reaching its peak with the Marshall Plan, underwent a long process of decline on both fronts of the debate.

In Economics, the liberal argument that Foreign Aid would promote development by addressing the three main deficiencies of developing countries has not withstood current research in the field. There is increasingly more consensus that economic development cannot be imported through Foreign Aid. It must be the result of domestic efforts, good policies, public management, and other numerous more statistically relevant variables, such as Foreign Direct Investment (FDI) flows and population size [7].

Regarding the debate in International Politics, the growing academic consensus tends to point out the political-economic interests and the strong vertical power relations that end up driving the allocation of Foreign Aid. Current research in the field follows the critical methodology of the 1970s and 1980s by making the necessary connection between large aid flows and the strategic interests of donor countries [9].

However, despite the notions of effectiveness and impartiality of Foreign Aid being evermore questioned, it remains a mechanism of fundamental importance for the lives of many people around the globe. As Qian [14] put it, academic production in the field revolves around two distinct questions: one examines whether the aid has been effective, whereas the other questions whether aid can ever be effective. The former focuses on the means employed, the objectives involved, and the execution channel to help improve foreign aid projects. The latter questions the essence of aid itself and fundamentally whether it should continue to be applied and studied [14].

Thus, instead of abandonment, international community efforts should be directed towards reforming the system. Such reforms will not solve all dimensions of the problem, but they can help better

the success rate of proposed projects. As exemplified by High-Level Forums on the Effectiveness of Foreign Aid, the discussed reforms aim to standardize the methodology for data collection, promote greater coordination between donors and recipients in aid planning, and increase overall transparency [15].

During the research phase, some study gaps became evident in the field. Firstly, there is a lack of studies on alternative indexes and indicators that allow for addressing development in its broadest sense, encompassing aspects of education, health, poverty eradication, well-being, quality of life, etc. [16]. Another identified gap was the lack of studies and texts evaluating the effects of domestic factors on Foreign Aid provision [9]. This second gap is particularly important because, like any other foreign policy agenda, aid provision undergoes a delicate, albeit overlooked, internal decision-making process, subject even to the interests of large corporations and civil society. Finally, there was also a lack of texts comparing the domestic decision-making processes of traditional donors, within the realm of ODA, with those of emerging donors, especially China.

5. References

- [1] Pankaj, A. K. Revisiting Foreign Aid Theories. *International Studies*, 2005.
- [2] OCDE/CAD (abril, 2019). What is ODA. Available from: <https://www.oecd.org/development/stats/What-is-ODA.pdf>. [Accessed 10th January 2024].
- [3] Oliveira, R., Gennari, A.M. Teorias estruturalistas do crescimento e do desenvolvimento. *História do Pensamento Econômico*. São Paulo: Saraiva, 2008.
- [4] Easterly, W., Pfutze, T. Where does the money go? Best and Worst Practices in Foreign Aid. *Journal of Economic Perspectives*. 2008; vol. 22, (2).
- [5] Bauer, P. T. *Dissent on development: studies and debates in development economics*. Cambridge: Harvard University Press.
- [6] Deaton A. *The Great Escape: Health, Wealth, and the Origins of Inequality*. Princeton Univ. Press, Princeton; 2013.
- [7] Yiew, T. H., Lau, E. Does foreign aid contribute to or impede economic growth. *Journal of International Studies*; 2018.
- [8] Apolinário, L. *A Cooperação Brasileira para o Desenvolvimento Internacional como Instrumento de Política Externa: a Economia Política da Cooperação Técnica Brasileira*. Tese de Doutorado (Universidade de São Paulo); 2019.
- [9] Lancaster, C. *Foreign Aid: Diplomacy, Development, Domestic Politics*. University of Chicago Press, Chicago; 2007.
- [10] Sogge, D. Doadores de ajudando. *Revista Tempo do Mundo*. 2017; v.3 (1).
- [11] Mateo, L. R. *A Ajuda Externa e a Formulação da Estratégia Internacional dos Estados Unidos a partir do 11 de setembro de 2001*. São Paulo, 2017.
- [12] Radelet, S. *A Primer on Foreign Aid*. Center for Global Development; 2006.
- [13] Lima, T.; LOURENÇO, E. Controvérsias da ajuda alimentar para o desenvolvimento: o protesto haitiano contra o apoio dos EUA ao programa de merenda escolar do Haiti. *Revista Brasileira de Políticas Públicas e Internacionais*. 2018; v.3 (1)
- [14] Qian, N. *Making Progress on Foreign Aid*. National Bureau of Economic Research. NBER Working Paper. 2014; n. 20412.
- [15] Janus, H. *ERD - Literature Review: External support to national development efforts*. European Report on Development, 2012.
- [16] Jensen, T. M. (How) Does Aid Work? A Literature Review of Aid Effectiveness & Welfare Studies. DIIS Working Paper. 2008; n. 2008/29.