FOREIGN AID AS A PROMOTIONAL STRATEGY

Curtis M. Jolly and Millie A. Gadbois

Developed countries are motivated by several forces when allocating aid to developing countries. The forces could be humanitarian in one country, and commercial self-interests in another. The principal objective of this study was to determine the effectiveness of aid as a promotional strategy for trade, and to investigate whether major donor countries are optimally allocating their aid resources to increase their export and total trade.

Models were developed to explore the effectiveness of aid as a promotional instrument for exports and total trade. Donor exports and total trade were expressed as functions of aid, per capita GNP of the recipient country, and aid from competing donors. The study showed that exports and total trade responded to total expected aid contributions and per capita GNP of the recipient countries. Also, all donors, but one, were maximizing the returns to aid, given the level of trade with recipient countries and will be reluctant to increase aid flows, given the current trade level.

Aid-giving is a complex activity. The intricacy has been further compounded as aid donors have never clearly defined their rationale for giving certain types of aid. It is evident that in the process of allocating aid to developing countries, donors are motivated by different forces, such as humanitarian in one country and the furtherance of self-interests in another. Stent and Karunaratne identified the following mandates for aid: (1) humanitarian, (2) economic and development growth of recipients, (3) fostering trade or commercial interests, and (4) serving of strategic geopolitical or foreign policy interest of the donor.1

While strongly emphasizing the humanitarian and developmental reasons for aid-giving, many donors have openly stated that, in allocating aid, they take into account their own national interests, whether these are
conceived largely in terms of maintaining spheres of influence, political or military alliances, or simply of promoting their own export trade.\(^2\) White stated that the image portrayed of donors as villains, engaged in an international conspiracy to suppress the developing countries and keep them in a condition of dependence, seems equally as implausible as does the simplistic view of donors as disinterested distributors of charity.\(^3\) Many writers have felt that no dichotomy exists between giving aid for ethical reasons and promoting self-interests.\(^4\) In fact, Maizels and Nisanke mentioned that aid given with the intent of promoting self-interest may be used to accelerate the development process, whereas aid given strictly for humanitarian or altruistic reasons may or may not contribute to the foreign policy program of the donor.

A number of studies have shown that aid is not an efficient instrument of commercial policy. Mosley, in his latest book concluded that aid has no appreciable effect on trade share.\(^5\) However, his attempt to show the effects of aid on trade was undertaken with graphical illustration which showed aid-trade movements over time, but did not produce a model that showed the direct effects of aid on trade. In this article, an advertisement model is used to show that aid could be used as a promotional instrument, if optimally allocated.

THE PROMOTIONAL ASPECT OF AID

Most Third World nations have been eager to accept aid even in its most stringent and restrictive forms. This group of countries accused developed nations of failure to keep up with specific aid targets which would improve opportunities for economic development. The group of 77 developing countries of the Paris Conference of 1981 laid great emphasis on each developed country committing itself to an aid flow to least developed countries of 0.15 percent of donor GNP for 1981-1985, and 0.2 percent for 1986-1990.\(^6\) In spite of the developing countries’ plea for more aid, Official Development Assistance (ODA) from Organization for Economic Cooperation and Development (OECD) members to developing countries and multilateral agencies declined by 6.0 percent in nominal terms in 1981.\(^7\)

Failure of developed nations to meet their commitments has, in part, resulted from the economic situation in the industrialized countries. With high unemployment, stagnant industrial output, and large budgetary deficits in recent years, donors are preoccupied with internal problems and domestic claims on their resources. With respect to these growing do-