

**INTERNATIONAL AID AND THE DEVELOPING  
NATIONS:  
WITH SPECIAL REFERENCE TO  
THE MICROSTATES OF THE PACIFIC REGION, 2000-  
2016.**

*Dissertation submitted to the Jawaharlal Nehru University in partial  
fulfillment of the requirements for the award of the degree of*

**MASTER OF PHILOSOPHY**

**BHUPENDRA KUSHWAHA**



**Centre for Indo-Pacific Studies  
School of International Studies  
JAWAHARLAL NEHRU UNIVERSITY  
New Delhi 110067  
2018**



**CENTRE FOR INDO-PACIFIC STUDIES**  
**SCHOOL OF INTERNATIONAL STUDIES**  
**JAWAHARLAL NEHRU UNIVERSITY**  
NEW DELHI - 110 067

**DECLARATION**

This is to certify that the dissertation entitled, '**International Aid and the Developing Nations: With Special Reference to the Microstates of the Pacific Region, 2000-2016**', submitted by me in partial fulfillment of requirements for the award of the Degree of **MASTER of PHILOSOPHY**, is my original work and has not been previously submitted, in part or full, for the award of any other degree of this or of any other university.

14<sup>th</sup> July 2018

**BHUPENDRA KUSHWAHA**

**CERTIFICATE**

We recommend that this dissertation be placed before the examiners for evaluation.

Prof. Shankari Sundararaman

**CHAIRPERSON**

15/7/18

Dr. Shubhamitra Das

**SUPERVISOR**



**Chairperson**  
Centre for Indo Pacific Studies  
School of International Studies  
Jawaharlal Nehru University  
New Delhi - 110067



Centre for Indo Pacific Studies  
School of International Studies  
Jawaharlal Nehru University  
New Delhi - 110067

*To Knowledge*

# Acknowledgments

I am indebted to a lot of people and the Jawaharlal Nehru University for the resources and support they provided me. This dissertation would have been an impossibility without these people and the university. First and foremost, I want to extend my gratitude to my supervisor Dr. Shubhamitra Das, who has always been there to guide and help. Her supportive, caring, and enthusiastic attitude made this tough task of writing dissertation an easier one. It is her excellent supervision and prompt corrections that turned this study as eloquent and as flawless as possible.

I am grateful to the Chairperson of the Centre for Indo-Pacific Studies (CIPS), JNU, Prof. Shankari Sundararaman for her support and enthusiasm. Her joyful nature and hardworking attitude inspired me a lot to put in even greater effort for this study. I am grateful to Prof. GVC Naidu, Prof. Man Mohini Kaul, Prof. Ganganath Jha, Prof. Varun Sahni for their valuable contributions to my knowledge and experience.

I want to acknowledge the invaluable contribution of all the authors, editors, journals, websites, and government documents without which none of this would be even imaginable. I want to thank my parents Mr. Sukvindra Kushwaha & Mrs. Mohini Kushwaha and sisters Chitra and late Chitralkha for believing in me and supporting me. I am immensely grateful to my great friends Shubham Verma, Ratendra Singh Parmar, Shashi Paul, Bhupendra Kumar, Prateek Atal, Himani Meena, Anuj Yadav, Rebecca, Meilem, Vivek, Rachel, Arun Kumar, Kumar Divya, Rashi Bansal, and Abhishek Biswas for always being there for me throughout this journey.

In the end, I want to thank my guru Sadhguru Jaggi Vasudev for opening the gate to an altogether new world for me.

Bhupendra Kushwaha

# Contents

Acknowledgments		i
Illustrations		iv
List of Abbreviations		v
<b>1</b>	<b>Introduction</b>	<b>1</b>
	1.1 Background	1
	1.2 Tentative Chapters & Literature Review	5
	1.3 Rationale & Scope of Study	11
	1.4 Research Methodology	12
<b>2</b>	<b>Rationale behind International Aid and its Global Reach</b>	<b>13</b>
	2.1 Definition of Foreign Aid	14
	2.2 History of Foreign Aid	15
	2.3 Rationale Behind Foreign Aid	19
	2.4 Dollar Supremacy	25
	2.5 Conclusion	29
<b>3</b>	<b>Impact of Foreign aid on the Pacific Islands and the Role of Pacific Islands Forum</b>	<b>31</b>
	3.1 Economic Realities of the Pacific Island Nations	32
	3.1.1 <i>Human Resources</i>	33
	3.1.2 <i>Geographic Attributes</i>	34
	3.1.3 <i>Natural Resources</i>	36
	3.1.4 <i>Capital Resources</i>	38
	3.1.5 <i>Climatic Vulnerabilities</i>	39
	3.2 Need for Foreign Development Assistance	39
	3.3 Impact of Foreign aid on the Pacific region	43
	3.3.1 <i>Impact on government institutions</i>	43
	3.3.2 <i>Impact on the Economies of the Pacific Island Countries (PICs)</i>	44
	3.3.3 <i>Impact on the Lives of the Pacific People</i>	45
	3.4 Role of Pacific Islands Forum with Respect to Foreign Aid	46
	3.5 Conclusion	49

<b>4</b>	<b>Aid dependency and Disproportionate Benefits to the Aid Providers</b>	<b>51</b>
	4.1 The Way in which Aid is provided	52
	4.2 Disproportionate benefits to the aid providers	54
	4.3 Economic and Political Dependency generated by Foreign Aid	58
	4.4 Aid Providing Agencies and Issues with them	61
	4.4.1 <i>Misplaced Priorities</i>	62
	4.4.2 <i>Selectivity</i>	62
	4.4.3 <i>Evaluation and Conditionality</i>	63
	4.4.4 <i>Poor Coordination among Donors</i>	64
	4.4.5 <i>Food Aid</i>	64
	4.5 Recommendations to Improve Aid Agencies	65
	4.6 Conclusion	66
<b>5</b>	<b>Conclusion: Foreign Aid a Neo-Imperialist Tool?</b>	<b>69</b>
	<b>References</b>	<b>74</b>

# Illustrations

## Figure

- |     |   |    |
|-----|---|----|
| 2.1 | Aid for Trade financial commitments by developing region, 2006-2014 | 29 |
|-----|---|----|

## Map

- |     |                       |    |
|-----|-----------------------|----|
| 3.1 | Australia and Oceania | 35 |
|-----|-----------------------|----|

## Tables

- |     |  |    |
|-----|--|----|
| 3.1 | Estimated population size and population density of Pacific Island Countries: 2014 | 33 |
| 3.2 | Data expressed as a percentage of the population in the respective countries       | 40 |
| 3.3 | Coefficient of Human Inequality  | 41 |
| 3.4 | Aid as a percentage of Government Revenue and GDP                                  | 44 |

# Abbreviations

ACP	African, Caribbean, and Pacific Group of States
ADB	Asian Development Bank
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
ANU	Australian National University
BRI	Belt and Road Initiative
CHI	Coefficient of Human Inequality
CROP	Council of Regional Organisations in the Pacific
DAC	Development Assistance Committee
ECSC	European Coal and Steel Community
EEZ	Exclusive Economic Zone
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDA	International Development Agency
ILO	International Labour Organization
IMF	International Monetary Fund
IS	Islamic State
MDG	Millennium Development Goal
MW	Mega Watt
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation and Development
PEPFAR	President's Emergency Plan for AIDS Relief
PFM	Public Finance Management
PIC	Pacific Island Country



PIF	Pacific Islands Forum
PNG	Papua New Guinea
PSRO	Pacific Sub-Regional Office
SPF	South Pacific Forum
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention for Climate Change
UNFPA	United Nations Population Fund
UNGA	United Nations General Assembly
US	United States
USA	United States of America
USAID	United States Agency for International Development
USSR	United Soviet Socialist Republic
WTO	World Trade Organization

## Chapter – 1

### Introduction

---

*“While aid has had success in humanitarian relief, family planning, and reducing infant mortality, its record in promoting economic growth has been mixed.”*

**Carol Graham and Michael O’Hanlon (1997)**

*“How to achieve a beneficial aggregate impact of foreign aid remains a puzzle.”*

**William Easterly (2003)**

*“It is necessary that we invest in our infrastructure, stop sending foreign aid to countries that hate us and use that money to rebuild our tunnels, roads, bridges, and schools.”*

**Donald Trump<sup>1</sup>**

#### 1.1 Background

For low-income countries, international aid has provided a way to increase their income. International aid is used by most of them to finance their deficit and provide basic civic amenities to their citizens. However, the word ‘aid’ is a little tricky here. Foreign aid has always been used as a tool by the Super Powers to serve their vested interests. Besides, the record of foreign aid in increasing economic growth in the recipient countries has been doubtful. So to whom does ‘foreign aid’ actually ‘aid’ becomes an important question. This question forms the central theme of this study.

International aid became a prominent part of foreign policy of the developed nations, especially the United States of America, after the end of the Second World War. The United States started giving foreign aid to the European nations to rebuild them after the destruction from the war. Since then aid has reached almost all the developing countries of the world such as in Asia, Latin America, Africa, and the Pacific region. As mentioned by Carol Graham and Michael O’Hanlon (1997) at the outset of this introduction, foreign aid has led to improvement in some areas of human development,

---

<sup>1</sup> Statement made in presidential announcement (Tyson 2015).

but its performance and utility regarding economic growth are doubtful. This study takes on the role of foreign aid in assisting countries to improve their prospects for economic growth and development. Primary understanding that created the need for foreign aid is that low-income countries do not have enough savings to create necessary investment for consistent economic growth (Krueger 1986). Therefore, foreign financial assistance is supposed to fill that gap by increasing the income of the aid recipient countries.

The study goes to analyse the necessity of foreign aid and its impact on the recipient economies. Pacific islands countries (PICs) are chosen as a special reference for this study because of their special and distinct attributes regarding geography, natural resources, and human resources. PICs are also supposed to have greater strategic importance than “continental developing areas” (Poirine 1999). The Pacific region is the most aid-dependent region in the world (Dornan and Pryke 2017 & Valerio 2014). The Pacific island countries receive the highest per capita aid in the world (CHESHER 2013). Even then the economic growth among these countries “has generally been poor” (Peebles 2005b). Because of poor economic growth, the PICs cannot generate enough government revenue which further leads to poor welfare facilities for the citizens of the Pacific people.

The region has been receiving a large amount of aid from many countries, most of them are the former colonial masters. Australia is the largest aid provider for these microstates (Peebles 2005a & Zhang 2015). Despite such large amounts of aid, the level of growth in the region is low (Gani 2006). The Pacific island countries now almost completely rely on the aid providers for the amount needed for the development of their economies (Watsa 2009). Their efforts for generating revenues from the domestic economic activities, institution building, are not satisfactory and remain at a very low level (CHESHER 2013).

Instead, these nations have become used to the western lifestyle, western food, and have developed a nonchalant attitude towards economic activity, mainly because of the cultural factors, which inhibit “motivation to develop at any cost” (SJ 2012). Their traditional and indigenous way of living is slowly dying and has been altered substantially by the foreign aid. The people in the Pacific Islands, especially in the Federated States of Micronesia are now suffering from various lifestyle diseases such

as obesity, diabetes, high blood pressure, cancer, etc. (Cassels 2006). Economies that were once self-reliant, although with low-income, have now become dependent on the aid from other countries (Pryke 2013).

Australia has always played a dominant role in the Pacific region concerning defence and security, aid, and trade relations with the PICs. Australia provides huge billions of dollars as financial assistance to these countries to maintain its strategic influence in the region (Jones 2015). That's why Australia has been so proactive in trying to make the region mainly dependent on it. But lately, new entrants, like China, have been quite successful in increasing their popularity in the region (Zhang 2016).

The Pacific island nations come under the category of microstates because of the small population. The area of land available in these island countries is relatively very small and scattered over a large area in the ocean in the form of small islands (Kaul 1993). These aspects make these nations vulnerable to the external economic shocks (World Bank 2017). Another reason for their vulnerability is their susceptibility to natural disasters. They constantly face the threats of extreme weather conditions such as cyclones, floods, droughts, etc. (Hauger 2015). Lack of opportunities and threats from nature make these island nations particularly vulnerable to poverty, unemployment, poor economic growth and poor development. Besides, these countries do not have many natural resources that can be mined to generate economic growth. Nauru was once one of the richest countries in the world due to the presence of phosphate deposits in it (Grant 2016). But now due to excessive mining and mismanagement of wealth, it is one of the poorest in the world. Mining by former colonial powers has destroyed any arable land this country had and also its capacity to sustain any industrial activity (Kaushik 2015). The land and the economy were not the only things devastated during this process. It also affected the Nauruans; they are amongst the most obese and sickest people in the world (Grant 2016). The case is no different in the Federated States of Micronesia regarding the problems of overweight and obesity (Cassels 2006). Papua New Guinea is the only country which stands in exception to the other Pacific Island nations because of its relatively large area and abundant natural resources including oil, copper, gold and natural gas (Wilson 2014). The only abundant natural resources that these nations have include fisheries and a large area of the ocean bed, but again they do not have the latest technology to mine these resources to their benefit (Sato 2015). As a result, their economies have a very narrow production base.

The Pacific countries are spread over a large area in the Pacific Ocean and are far away from the other established market economies (SJ 2012). Even when they produce goods for export purposes, this large distance hinders the transportation and discourages the exports, while the imports have been regular. Because of the above-stated limitations, the private sector is also weak and has not been able to manifest itself into dynamic entrepreneurship. The level and standard of education, skill development, and technological advancement are also at a very low level. Naturally, all these conditions lead to poor economic growth and development, in general, and deficit in government budgets and trade balances, and poor living standards in particular. In such a scenario, the cycle of aid continues. International aid may also lead to a reduction in domestic economic activity which has been observed in the Pacific region. Moreover, foreign aid has mostly been used to fund the functioning of the government where it has led to leakage due to rampant corruption in these countries (SJ 2012).

Some of the reasons for providing foreign aid include promoting the national interest of the aid providers, poverty alleviation, and sustainable development in the recipient countries. But directly or indirectly such aid has altered the way of living of the recipient people and turned their economies into an export market for the goods produced in the aid provider countries (Suwa-Eisenmann and Verdier 2007). There exists a clear-cut way to achieving such results. Recognising that the low-income countries do not have enough avenues for increasing production (even when they have natural resources), developed countries offer aid to these countries, but with certain conditions attached to that foreign aid. More often than not these conditions have been designed to serve the vested interests of aid providers. The developed countries make these traditional economies realise that they are “poor” (by the western standards) and that their traditional way of living and doing trade is backward and cannot create enough income. While this may be true for most low-income countries, it does not straightaway mean that there are no chances for a country to develop solely utilising its resources. Moreover, the requirement of foreign assistance for economic development differs from country to country. The conditions tied to foreign aid may vary from buying necessary goods from the donor countries at a high price to selling any raw material to the aid providers at a very low price. It may also include an agreement to provide access and control over natural resources of recipient countries. Generally, conditions that are tied to foreign aid are related to economic and political reforms aimed at economic

liberalisation and democratic developments. The net effect of these transactions has been that most of the aid recipient nations have now become dependent on the aid providers (Knapman 1986). Besides, they continue to serve as an export destination for the goods manufactured by the aid provider countries (Helble et al. 2012). The recipient countries are also pressurised to comply with the Super Powers at the United Nations (UN) during voting at the United Nations General Assembly (UNGA) (Wittkopf 1973). This calls for an analysis of the role of foreign aid in imparting disproportionate economic and strategic benefits to the aid providers.

Development assistance leads to some level of loss of sovereignty for these small island countries. They are made to allow interference in the matters of their domestic functioning by the foreign aid providers. Thus, apart from creating economic dependency, the foreign aid also creates political dependency among these nations (Wilson 2014).

Pacific Island nations receive the highest per capita aid among all the low-income countries in the world (Pryke 2013). Despite a large amount of aid, these countries have low economic growth. The World Bank has termed this situation as “the Pacific Paradox” (Herr 2015 & Dornan and Pryke 2017). The main aim of this study is to analyse the policy of foreign aid from the angle of neo-imperialist policies. Analysis of the process of foreign aid shows that aid providers have benefitted more than the recipient countries by providing foreign aid. The benefits mainly come from exports to the recipient countries, aid providers gaining control over their natural resources, and creating a voting pattern conducive to their interests at the United Nations.

It may appear that the study is attempting to show the very idea of foreign aid in a negative light. However, the present study does not intend to make any such attempt. The sole purpose here is to analyse the process of foreign aid to the recipient countries to find out whether it has led to exploitation of the recipient countries at the hands of the aid providers. It attempts to find out ways to increase the effectiveness of aid and make the recipient countries independent of foreign aid to whatever extent possible.

## **1.2 Tentative Chapters & Literature Review**

The study is divided into five chapters, the first being the introduction. The first chapter provides an insight into the forthcoming chapters. It also contains a background of the economic and political realities of the microstates of the Pacific region. The second

chapter provides an introduction to the foreign aid, aid providers, aid recipients (Micro States), and its need for the microstates of the Pacific region. It elaborates on the history of international aid and the rationale behind giving the foreign aid to the developing countries. It includes discussion on the intents and purposes of the foreign aid. It focuses on all the possible aspects of providing foreign aid such as security, economic, political and the most recent being 'aid for Climate Change.' This chapter also discusses the foreign aid in terms of establishing "Dollar Supremacy." Besides, the second chapter discusses how aid was given to promote the national interests of the donor countries. "History of the international aid" can be traced back to the time of Enlightenment, where thinkers like Adam Smith advocated mutual gains from economic development (Williams 2013). Williams writes that foreign aid as an institutional activity started because of the political and economic ambitions of the United States at the end of the World War II. Williams mentions several policies by the Presidents of the United States of America during the 1940s and 1950s, who made foreign aid a regular feature of their foreign policy. They believed that economic and political stability in the developing countries was necessary for the security of the US. The US also wanted to contain the spread of communism at the same time achieving broader economic and international goals. To achieve these aims, the United States gave aid in the form of military and economic assistance to Greece and Turkey, and in the form of Marshall Plan to other European nations to build themselves after the end of World War II. The Article mentions several ways of dispensing aid to other countries by the US and other nations, including the erstwhile USSR, besides talking about the intentions of these aids.

Most Western nations in the post-World War II era focused on foreign aid as a tool to counter communism and promote interests of the aid providers across the world. Cleveland (1957), in his article "Purposes of the International Aid Programs" writes that for Americans "to influence the course of events in the developing world, cooperation must be obtained on whatever common basis there might exist. Today the most promising basis is a common concern with economic development." The other apparent concern was the propagation of democracy. Therefore, he advocates for the policy of foreign aid in dealing with the newly independent and developing nations, to contain communism, to maintain stability and friendly attitude towards the Western democratic countries amongst the developing countries of Asia and Latin America.

Hoey (1957) advocates for international aid to the developing countries in her article “Foundations of International Aid.” She bases her arguments on the fundamental principles of Christianity such as all men are children of God and are brothers, and deserve mutual love and respect. She points out that the main aim of international aid should be raising the standard of living, the well-being of people, pointing out and demonstrating the benefits of democracy. She puts the onus of developing the whole world on the Western countries. The author says that the Western countries should take the moral leadership in providing and administering the aid to the developing world. Apart from this, she emphasises on the universal ideas of human rights and dignity of every individual, and that sharing resources with economically deprived countries is a moral responsibility of prosperous nations. Hoey points out various benefits of providing international aid, such as developing people to people relationship, making new friends, learning about other cultures, and promoting world peace. Although benevolent, the author still imposes the western idea of development and raising the standard of living of the developing countries, while her article forgets to mention that it was colonialism by the western world that impoverished these now developing countries.

Foreign aid now has a very specific agenda of curbing terrorism. Security reasons apart from the humanitarian reasons are dominating the foreign aid programs especially to countries which are known to be safe havens for terrorists. Baker (2014), in his article “Foreign aid: history, theories, and facts,” argues “that motives of donating nations have varied over the decades, but two stand out: humanitarianism and strategic interests. Both have existed in different and changing proportions since about World War I, and both still exist today, but the watershed events of September 11, 2001, have focused nations’ efforts on the latter” (Baker 2014: 1).

Dudley and Montmarquette (1976) summarise the major reasons for giving the foreign aid. These reasons include: first, support for the national political interests of the donor countries by the recipients. Second, economic benefits in the form of more exports to the markets of the recipient countries. Third, expression of gratitude or some favourable changes in the lives of the people of the recipient countries.

The third chapter puts light on the economic and political realities of the microstates of the Pacific region and discusses the status of microstates of the Pacific region and the



necessity of foreign aid for their development. It discusses the natural vulnerabilities of the Pacific island countries because of their distinct geography and remoteness. It also emphasises on the impacts of the international aid on the economy and the lives of the people of these countries. Microstates of the Pacific have become dependent on foreign aid for their growth and development due to lack of certain resources that impede the natural process of economic development. This theme analyses this ‘inevitable need for foreign aid.’

Gani (2006) writes that the role of international aid in Pacific island is largely extended to finance government expenditure, payment for imports, or meeting shortfall in foreign exchange. He also argues that “poor economic performance, *ceteris paribus*, generates less income to meet the proposed developmental needs of governments, which becomes a pre-requisite for foreign aid” (Gani 2006: 288). Most Pacific Island countries with low population and limited area have constrained and limited domestic economic activity. Besides, they are also highly vulnerable to external economic conditions and extreme climatic conditions. On the question whether the Pacific Island nations should remain dependent on the foreign aid he writes, “for microstates like Tuvalu, Niue, Cook Islands and to some extent Kiribati, these countries will continue to be dependent on aid largely due to drawbacks in their productive structure” (Gani 2006: 291).

In the IMF Working Paper, titled “Are the Asia and Pacific Small States Different from Other Small States?”, Tumbarello, Cabezon, and Wu (2013) discuss the differences in challenges faced by the small states of Asia-Pacific and other small states. These challenges provide a certain kind of uniqueness to these small states. The paper has referred to the microstates of the Pacific region as small states apart from Kiribati, Marshall Islands, and Tuvalu, which it puts specifically in the box of “Special Challenges Facing Pacific Islands Microstates.” The differences or the unique challenges faced by these small/microstates include challenges in raising their growth potential and living standard largely because of their small population, geographic isolation, and dispersion. They also have narrow export and production bases, lack of economies of scale, limited access to the international capital market, and exposure to external economic shocks. These countries have higher fixed government costs relative to other states. Many of these countries don’t have a central bank which constrains the scope for diversifying their economy. In general, these nations face more vulnerability and macroeconomic volatility than the rest of the Asia-Pacific small states. The third

chapter also mentions the role of the Pacific Islands Forum in giving a stronger and united voice while making deals with the aid providers.

The fourth chapter of this study discusses the economic and political dependence generated among the Pacific Islands due to the foreign aid. This chapter also discusses the issues with the aid process of some major aid agencies and makes some recommendations to improve the process of aid flow to increase its effectiveness. The fourth chapter revolves around the dependency generated by the foreign aid among the developing nations particularly the microstates. It deals with the economic as well as the political dependency, at the same time considering the present economic realities of these states. It discusses the disproportionate economic and political benefits that have accrued to the aid providers.

Mikolajuk (2005) in her article, “Thanks, But No Thanks: The Other Face of International Humanitarian Aid,” talks about the cycle of dependency that the humanitarian aid creates in the developing countries. She gives multiple examples to prove her point that the aid has done more harm than good to the countries where it was provided, mainly because of the wrong timing of the aid, lack of realistic planning, and ignoring the long-term effects of the aid. Some of the many effects of the defective aid process she mentions include creating an economy of theft and corruption, ruining the traditional economy, depressing the local food market by supplying food even in case of good agricultural production, thus devastating the local farmers and suppressing the future agricultural production.

Rudra (1970) is sceptical about “the unavoidable necessity of aid for development” (Rudra 1970: 1341) and to support his argument he gives the examples of countries such as the Soviet Union and China which have developed without foreign aid. He also writes that the obvious acceptance of aid as unavoidable for the development process makes the countries dependent on it and when aid stops they become helpless. He cites the example of India which had to abandon the planning for four years because of heavy reduction in aid in 1965. Mentioning that “aid is partly an instrument of foreign policy and partly a product of the pursuit of enlightened self-interest,” Rudra compares aid with an “arm in the hands of the Super Powers, by which pawns are moved across the chess-board of world politics in the Super Powers' relentless pursuit of the objective of world domination” (Rudra 1970: 1344).

Singer (1970) quotes a former USAID administrator where the latter mentions the aid as a precursor to trade, i.e., exports from the United States. The administrator says that the aid lays down the path to future trade which is very beneficial for the balance of payments of the United States. The administrator mentions the rising trend in the exports to countries like Greece, Israel, Taiwan, Libya, and Iran where the aid has contributed in the long run in increasing the exports of the United States.

Suwa-Eisenmann and Verdier (2007) discuss the traditional macroeconomic view that foreign aid supplements the domestic savings leading to higher investments which increase the economic growth in the recipient country. This growth ultimately increases the import capacity of the recipient countries, thus leading to increased exports from the aid provider country. They also talk about the conditions that are associated with the foreign aid. One of the many conditions they mention includes liberalising the economy of the recipient country. Exposure to export goods, encourage follow-up orders and expand future exports. While such exports are mostly over-priced and retard the growth of the recipient economy, they subsequently reduce the capacity of the country to trade with the other countries. Throwing light upon the effects of the tied aid, the authors write that such an aid increase the trade flows in the short run and reduce them in the long run. Another possibility of tied aid is that it creates trade dependency. According to which the “aid may fund projects requiring the import of capital goods that are only produced in the source country” (Suwa-Eisenmann and Verdier 2007:486).

Easterly (2007) writing about the IMF and the World Bank argues that these agencies have not learned from the past and have not improved much. He writes that while over time there has been an increased sensitivity among the donors, a decline in aid tying, and a reduction in food aid, problems like increased donor fragmentation, unchanged emphasis on technical assistance, little or no sign of increased selectivity concerning policies and institutions still continue.

The fifth and final chapter of this study and summarises the whole study besides concluding it. The final chapter suggests ways to minimise the dependence on foreign aid. Since complete independence from the aid may not be feasible now, it will talk about how to maximise the benefits of foreign aid. It will provide insights into making the region more independent of foreign aid, both economically and politically.

This study will analyse whether these countries can bring back some of their traditional, sustainable, and self-reliant ways of economic conduct. Although not completely possible, it will analyse whether there is any room to reverse the impact of the western lifestyle on the Pacific people. If not possible, do the Western powers have a role to play in it? The basic question is, do these countries need foreign aid to develop in the way western countries developed? The current literature does not answer these questions. The present literature does not mention the exact level of economic, and political dependence generated due to foreign aid in the Pacific Island countries. The present study will provide the contemporary analysis of the disproportionate benefit to the foreign aid providers. The study will try to fill these gaps by providing multiple contemporary examples along with facts and figures to prove the two hypotheses of this study.

### **1.3 Rationale & Scope of the Study**

This study will go into the analysis of the international aid, its motive, and purpose. It will discuss how international aid is critical for the developing countries with special reference to the microstates of the Pacific region. The time frame that will be studied starts from 2000 and continues till 2016. The rationale behind taking this period is that the year 2000 is when the Pacific Island nations united to change the name of erstwhile South Pacific Forum (SPF) to Pacific Islands Forum (PIF) to make it more inclusive and better reflect the geographic locations of its members. This is a landmark in the history of the Pacific nations because the PIF allows these small nations to raise a collective voice in the international forums, besides making them a united and strong force while making bilateral and multilateral negotiations. The year 2016 is yet another landmark in the history of international aid as it when the far right wing started manifesting itself with even greater force by electing Donald Trump as the president of the United States of America. Donald Trump has changed the fundamentals of foreign aid and is following a more conservative and narrow approach while delivering the foreign aid world over. The present study focusses on the time span that existed between these two major events. The scope of the study is limited to the countries in the Pacific Islands Forum. However, it does take examples of other countries to make an illustrative study. The study will analyse the aid process on almost all the PIF's members, not exclusively focussing on a limited number countries because the aid process and its impact, as well as peoples' attitude towards it, are different in various

groups of countries. Focussing only on some countries will subject the outcomes of study to being one-sided. With the intention to present a general scenario regarding foreign aid in the region it has been decided to take the Pacific Islands Forum (PIF) countries as a single entity and then look at the aid process and its impact on the member countries.

The study also tries to analyse how the foreign aid generates political and economic dependency. After depicting the clear picture of foreign aid and its impacts, the study will try to find out the ways as to how international aid can be used for better economic and political upliftment of these countries and at the same time protecting their sovereignty irrespective of the conditions of aid providers. The study also tries to dwell upon the question of whether these microstates can survive without the international aid, considering their economic realities, and can they be completely politically independent.

The study is based on two hypotheses. The first hypothesis is that Pacific island nations are being implicated at an individual level by the aid providers to project their interests, and Pacific islands Forum (PIF) serves as a strong medium to make better negotiations with the aid providers. The second hypothesis is that foreign aid has disproportionately benefitted the aid providers by making the Pacific island nations subject to the exports from the aid providers.

### **Research Methodology**

The research is primarily be based on the secondary data collected from various sources such as articles, papers, reports, reviews published in prominent journals, periodicals, books, websites, etc. It also considered information and data from the primary sources such as the government reports, websites and magazines, and reports by various organisations like the Pacific Islands Forum, OECD, UNDP, etc. The reports of World Bank and IMF along with the USAID have been used to understand the conditionality of foreign aid and to know the dependence and also the different use of aid donors. The study follows the deductive and inductive methods while studying the aid dependence and economic realities of the Pacific Island countries. The Internet has been used extensively in the research.

\*\*\*\*\*

## Chapter 2

### Rationale behind International Aid and its Global Reach

---

*Foreign aid is neither a failure nor a panacea. It is, instead, an important tool of American policy that can serve the interests of the United States and the world if wisely administered.*

**Lee H. Hamilton<sup>2</sup>**

(Former member of the United States House of Representatives and currently a member of the U.S. Homeland Security Advisory Council)

The idea of sharing a nation's wealth with other nations came to fore when the nations started seeing the benefits of mutual interdependence. State-nations realised the importance of staying together in the anarchic international order. They also understood that no matter how wealthy and armed they may be they were still vulnerable to weakness. That is one of the reasons why the nations choose to have both friends and allies. Although there are many ways to secure strategic allies, one of the most important ways by which nations could make better allies is through financial help. Different people may attribute different reasons to giving and sharing, but as far as international politics is concerned, it is mostly (read just) about protecting one's national interests. International political leaders may not have put it as bluntly as today the President of the USA puts it, but the promotion of self-interest has always been implicit. During the two world wars and today, it seems more explicit with the rise of far right all over the world.

This chapter is divided into two parts – the first part deals with the origin and history of international aid. The second part deals with the rationale behind international aid. It delves upon the intent and purpose of foreign aid. It also focuses on all the possible aspects of foreign aid such as security, economic development, political benefits, etc. There is a third aspect to this chapter as well which will discuss foreign aid regarding establishing 'Dollar supremacy.'

---

<sup>2</sup> Accessed 02 Feb. 2018 [Online: Web] URL: <https://www.stlouisfed.org/news-releases/2007/11/01/foreign-aid-who-benefits>

## 2.1 Definition of Foreign Aid

Encyclopaedia Britannica (Williams, 1998) defines foreign aid as “the international transfer of capital, goods, or services from a country or international organisation for the benefits of the recipient country or its population.” It also states that “aid can be economic, military, or emergency humanitarian (e.g., aid given following natural disasters).” OECD refers to resource flows to developing countries as Official Development Assistance (ODA). According to the website of OECD (OECD, 1972), “ODA is the key measure used in practically all aid targets and assessments of aid performance.” The Development Assistance Committee (DAC- OECD) defines ODA as “those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

- i) provided by official agencies, including state and local governments, or by their executive agencies; and
- ii) 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).”

This definition excludes military aid, anti-terrorism activities, and most peacekeeping operations in line with the exclusion of military costs.

To clear any doubt that may arise the term ‘foreign/international aid’ here refers to any help given by one nation to the other nation in the form of finance, food items, durable and non-durable consumer goods, medical help, capital goods, technology transfer, infrastructure development, etc.

There are various reasons for providing help to other countries in the form of foreign aid. These reasons include mutual gains of economic development, economic and political stability in the developing world, containing the spread of communism, propagation of democracy, influencing the course of events in the developing world, promoting cultural relations, curbing terrorism among others. It may also include

support for aid providers in international forums, creating export destinations, raising the standard of living of aid receivers, promoting world peace, etc.

There is a new reason for seeking international help today, and it is climate change. Foreign aid is undergoing a transition in its character and has been given more for environmental assistance for past few decades (Arndt et al., 2017). Data from [aiddata.org](http://aiddata.org) shows that the change in the characteristics of foreign is substantial. The ratio of aid categorised as “dirty” to aid categorised as “environmental” has fallen from about eight in the early 1990s to around three in late 2000s (Arndt et al, 2017). Developing countries which are more vulnerable to the impacts of climate change, for example, Pacific Island countries, are seeking finance and technology to combat and mitigate the impacts of climate change from the developed countries. Historically the developed world has contributed in disproportionately large amounts to the changing climate. So, the logic says that it is them who should pay for it too. This is also known as the principle of ‘polluters pay.’

## **2.2 History of Foreign aid**

According to Encyclopaedia Britannica (Williams, 1998), the first form of international aid was military assistance given to countries that were considered strategically important during wartime. Prussia began its use in modern times when in the 18<sup>th</sup> century it subsidised some of its allies. Colonial powers provided large amounts of finance to their colonies generally to develop their infrastructure. However, their ultimate aim was to increase the economic output of their colonies. For example, the British Colonial Development Act of 1929 provided that the government should spend on development projects in British colonies (Little and Clifford, 1965).

The scope and structure of foreign aid as it exists today can be traced back to two major developments after World War II. These were, first, Marshall Plan, an aid package by the United States to rebuild the devastated economies of seventeen western and southern European countries. Second, the establishment of major international organisations such as the United Nations, International Monetary Fund (IMF), and the World Bank. These international institutions play a significant role in determining the share of aid seeking countries from foreign funds, setting the eligibility criteria for the receipt of foreign aid, and assessing the impact of it.



The history of foreign aid can be traced back to the time of Enlightenment, where thinkers like Adam Smith advocated mutual gains from economic development (Williams, 2013). Foreign aid as an institutional activity started because of the political and economic ambitions of the United States at the end of the World War II. Even before World War II, the United States introduced the ‘good neighbor’ policy by President Roosevelt in late 1930s, during which the United States began to provide development loans to Latin American countries through the US Export-Import Bank (Williams, 2013). In the second half of the 20<sup>th</sup> century when most of the countries across the globe became independent, they started setting up their regional institutions or banks for regional and country specific development. These included Inter-American Development Bank, which was set up in 1959. Till then the World Bank was the only multilateral development agency. African Development Bank (AfDB) was set up in 1963, Asian Development Bank was established in 1966.

The study focusses on the aid provided by individual nations through their national aid agencies such as AusAID, USAID as well as on the aid provided through the Bretton Woods institutions, i.e., the World Bank and the International Monetary Fund (IMF). Ever since the Bretton Woods institutions came into being, they have dominated the global economic situations in many ways. They became the representative of the developed countries through which they exercised monetary influence on the underdeveloped and developing nations when these countries faced financial constraints. This chapter will throw light upon their history in relation to the history of foreign aid.

The Bretton Woods institutions, i.e., the World Bank and the International Monetary Fund (IMF) were established at a meeting of 43 countries at Bretton Woods, New Hampshire, the USA in July 1944. The institutions were set up with two main aims. They were, first, to rebuild the devastated post-war economy, and second, to promote international economic cooperation. The promoters of these institutions believed that the depression<sup>3</sup> gave birth to fascism and the world war. Therefore, the international community wished to keep an eye on the international economy to prevent any such situation in the future. The IMF was expected to harmonise the monetary policies of its members and maintain their exchange stability, thereby creating a stable environment

---

<sup>3</sup> the great depression of the 1930s.

for international trade. The World Bank was expected to lend money to war ravaged and impoverished nations to reconstruct and develop themselves. All this was done to improve their capacity to trade (Bretton Woods Project 2005).

Within a few months from the establishment of the World Bank, it became clear that the terms and conditions with which the World Bank was lending to the countries were proving very harsh for the developing countries. For this reason, The International Development Agency (IDA) was created. Its establishment was based on the reports from the United Nations and the U. S. government to establish a program to lend to the “poor countries on the concessional terms with the backing from the multilateral donors” (IDA 2018). Beginning with 51 members, the IDA has grown to have a membership of 173 members. Since the time it was set up, IDA credits and grants to countries have accumulated to \$345 billion, with an average of \$18 billion over the last three years (IDA 2018).

The IMF has a totally different purpose. The IMF has been described as an enemy of surprise because philosophically it is committed to the orderly and stable growth of the world economy (Driscoll 1996). The establishment of the IMF was the world community’s response to the problems that led the Great Depression of the 1930s. The IMF requires its member nations to give up some aspects of their national sovereignty by renouncing practices that are harmful to the economic well-being of the fellow member nations of the world (Driscoll 1996). All this is done in the spirit of enlightened self-interest. The IMF’s Article of Agreement, which is signed by all members, contains its rules. These rules constitute the code of conduct. The code of conduct makes it a requirement on the members to allow their currencies to be freely exchanged for foreign currencies and without any restriction. It also requires the members to keep the IMF informed of changes they wish to make in their financial and monetary policies that will impact other members' economies, and, to the extent possible, to modify these policies on the advice of the IMF to accommodate the needs of the entire membership (Discroll 1996). To assist member nations follow the code of conduct, the IMF maintains a pool of money from which member countries can borrow when they are in anymonetary trouble. The primary aim of the IMF is not to serve as a lending institution, but to serve as “overseer of its members' monetary and exchange rate policies and a guardian of the code of conduct.” The IMF is convinced that a primary condition for the prosperity of all nations is an orderly monetary system that will promote trade,

create jobs, expand economic activity, and raise standards of living throughout the world. As per its constitution, the IMF is required to oversee and maintain this system.

The World Bank, the IMF, and the United Nations along with national aid agencies have to played significant roles in outlining the history of foreign aid. After the establishment of these institutions, a new era started with the beginning of Cold War. Cold War defined the use of foreign aid by the aid providers to serve their political interests. During the period of Cold War, the super powers and their allies used foreign aid to make political alliances and increase their influence among the aid recipient countries (Phillips 2013). For example, the United States provided foreign aid with the main aim of containing communism and promoting democracy and market economy in the developing countries.

Foreign aid started taking a definitive form in 1960s (Phillips 2013). While former colonial masters like Britain and France were still providing financial aid to their former colonies, countries like Sweden which never had any colony started giving foreign aid on humanitarian grounds. They started developing aid programs in particular focus countries. By the end of the 1960s, the idea of the purpose of the international aid began changing (Phillips 2013). This change happened under the influence of new the head of the World Bank Robert McNamara. McNamara started promoting donor funded programs to meet basic needs of the people such as health, education, clean drinking water, and sanitation. Phillips quotes author and academician Rosalind Eyben and says that at that there was a feeling that the people had been forgotten and poverty was rampant (Phillips 2013). The investment in infrastructure was not making much difference in people's lives. People started looking for the kind of economic growth that would be more equitable and will reduce poverty for all. In the 1980s many developing countries were highly indebted due to the global recession. Donor countries lent money to the developing countries to help them manage their debts but with certain conditions attached which required them to restructure their economies and to reduce their spending on the social services. India's example is notable here. In the late 1980s, when India faced a severe Balance of Payment crisis, it was compelled to take a loan from the IMF. In return, the IMF asked India to comply with certain conditions. They included – liberalising the economy, minimising the government intervention in the economy and reducing expenditure on the social service.

### **2.3 Rationale behind Foreign Aid**

The world is interconnected in many ways such as ideologically, economically, and technologically, not to mention geographically as well. When something on a major scale happens in one part of the world, the other parts of the world also experience the ripples of it. The instances to substantiate this view are spread across time and space. They range from as early as the spread of the ideas of the French Revolution, the Industrial Revolution in England, the Bolshevik Revolution to the economic effects of the great economic depression in 1930s. The two catastrophic World Wars also impacted almost all the countries in the world in one way or the other. Then the Cold War affected the entire global politics. The recent refugee crisis in European countries in 2015 is also a good example of this, where the refugees from some North-African and West-Asian countries flooded the European countries. The same is true for prosperity and development; when one part of the world is peaceful, it is supposed to be good for all the countries. On the contrary if any part of the world is disturbed it will have some kind of impact outside the disturbed region. To extend the prosperity and peacefulness of Western countries to the other countries and maintaining it was the most ostensible reason for providing foreign aid. Generally, the aid recipient countries are those which are ravaged by poverty, ethnic conflicts, and more recently terrorism and countries facing threats from climate change. Several authors have advocated various reasons for providing foreign aid. They are discussed in the forthcoming paragraphs.

The US has always believed that economic and political stability in the developing countries is necessary for the security of the US (Williams, 2013). The US also wanted to contain the spread of communism at the same time achieving broader economic and international goals. To achieve these aims, the United States gave aid in the form of military and economic assistance to Greece and Turkey, and in the form of Marshall Plan to other European nations to build themselves after the end of World War II. Enjoying a dominant and powerful position in the international system at the end of the World War II, the United States started using foreign aid to pursue its wide ambitions of creating a relatively open and prosperous international economy. The use of foreign aid was also instrumental in the context of Cold War competition. Foreign aid became an important instrument for the western countries for achieving various international

objectives such as making political allies, liberalising markets, combating terrorism, and structuring regimes of global governance.

Most Western nations in the post-World War II era looked at foreign aid as a tool to counter communism and promote interests of the aid providers across the world. In order “to influence the course of events in the developing world,” America sought cooperation on whatever common basis there was (Cleveland 1957). At present the most pressing issue is economic growth and development. The other obvious concern was the propagation of democracy. Therefore, the US and other developed countries chose the policy of foreign aid in dealing with the newly independent and developing nations of Asia and Latin America mainly to contain communism, to maintain stability, and to promote friendly attitude towards the Western democratic countries.

There are two major approaches of foreign aid. At one extreme is the definite military approach which sees financial aid simply as a tool of military policy. At the other extreme is the ultimate benevolent humanitarian approach which advocates foreign aid for raising the standards of living of human beings. Under the military approach, aid is given only to those underdeveloped nations which the aid provider would need in the defensive alliance system and which are ready to work together. According to the humanitarian reason the ultimate aim of the foreign aid should be to help the nations who are economically less affluent.

There is a third approach too, which is referred to as the “political-economic case for foreign aid” (Cleveland, 1957). This kind of aid was given to underdeveloped countries to help them counter any communist influence and build strong democratic and liberal market economies. These nations would be in a better position to resist the advance of communism. This approach will ultimately increase the trading opportunities for the aid providers, besides helping the aid recipients to move along the path of democracy. Cleveland (1957) examines all these three contrasting approaches to international aid to find out a convincing rationale for foreign aid.

Marshall Plan was not based on humanitarian reasons as rebuilding Europe after the World War II was vital for security interests of America. But if the aid to European countries were solely based on the national interests of the US, then it would not have been successful in creating a sense of community within the Western world (Cleveland, 1957). Several countries today give foreign aid for humanitarian reasons, but it is hard

to find an instance when aid was completely based on humanitarian feelings. As mentioned earlier, the other approach of foreign aid is military. The military view of aid is considered very narrow and limits the scope of financial aid in perpetuating the interests of the aid providers and aid recipients. The military aid by America to South Korea, Japan, and European countries has demonstrated the military value of financial aid. Military aid generally upsets the balance of power in the region in which it is given as the reasons for providing the military aid include animosity or bitter relations with other country or countries. For instance, the US has been providing military aid to South Korea to protect its interests vis-à-vis North Korea.

Now the third approach of politico-economic interests insists on both economic as well as political interests. This approach was fundamental in the Cold War era, where the Western countries, especially the United States, used financial aid to counter any communist influence in the developing world. The US wanted to ensure a pro-West attitude among the developing nations during the Cold War period. The west believed that rising the standards of living of the people will also bring political improvement and will strengthen the non-communist democratic governments in the developing world. In the aftermath of World War II, the devastation of the countries and rampant hunger and poverty led to the fear of Communists occupying the weak/poor states. Hence the United States tried to win the countries through financial aid majorly to prevent the spread of Communism and promotion of liberal and democratic market economies. Post World War II period saw a huge shortage of food across the world which led to desperateness among people. Again the US did not want these desperate people to adopt communism to find a solution to the poverty and hunger that was unleashed by the World Wars. So the US employed foreign aid to help the nations facing food shortage improve food production and employment. How far the Western world has been able to achieve these goals is still a matter of debate.

Foreign Aid can also be used to access the raw material and other natural resources of the developing countries. Market expansion and development is beneficial for all and can be done by creating trading opportunities in the aid recipient countries. As the Western world was expanding its industrial development in the second half of the twentieth century, it needed raw material from the developing world. Foreign aid served this one purpose too and it continues to do so.

In the end, the debate about the rationale of foreign aid boils down to two major points. First, the economic development and political stability in the developing world will further the interests of the Western world. Second, the political developments in the developing world are important for the Western World to promote their own vested interests. Hence the Western countries cannot afford to have a nonchalant attitude towards the other part of the world.

A few authors have provided religious and moral values as the rationale for providing financial aid. Hoey (1957) bases her arguments on the fundamental principles of Christianity such as all men are children of God and are brothers, and deserve mutual love and respect. The author also makes an argument for universal human needs and human rights which are common to all and are unchangeable. She points out that the main aim of international aid should be raising the standard of living, the well-being of people, pointing out and demonstrating the benefits of democracy. She puts the onus of developing the whole world on the Western countries. It is well argued that it is the moral, ethical, social responsibility of the prosperous nations, business corporations, groups, and individuals to assist the less prosperous nations in raising the standards of living there. The author calls for moral leadership among the developed nations in providing and administering the aid to the developing world.

The main aim of the financial aid should be to improve the well-being of people. Other benefits of providing international aid which complement the well-being of people include developing people to people relationship, making new friends, learning about other cultures, and promoting world peace. Although benevolent, Hoey (1957) still imposes the western idea of development and raising the standard of living of the developing countries, while her article forgets to mention that it was colonialism by the western world that impoverished some of these now developing countries.

Foreign aid now has a very specific agenda of promoting security. Security reasons apart from the humanitarian reasons are dominating the foreign aid programs especially to countries which are known to be safe havens for terrorists. Baker (2014) argues “that motives of donating nations have varied over the decades, but two stand out: humanitarianism and strategic interests. Both have existed in different and changing proportions since about World War I, and both still exist today, but the watershed events of September 11, 2001, have focused nations’ efforts on the latter.”

Since the 1960s, terrorism has acquired a transnational characteristic (Bandopadhyay et al., 2011). No matter where terrorism has originated, it has impacted almost all the nations directly or indirectly. There are myriad of ways in which terrorism can impact a nation's interests. The spread of diaspora all over the world increases the vulnerability of states to terrorist attacks. Globalisation and internet have virtually removed the territorial borders, and people are interacting with each other all over the world in large numbers like never before. Internet has started to serve as one of the mediums for various terrorist organisations to spread their ideologies, recruit people in a clandestine manner, and spread fear among general public by uploading videos of murders, etc. This is one way in which terrorism has achieved a transnational character. The other way is that there are many countries which serve as the base for terrorism. But the operations of the terrorist organisations based in these countries are not limited to the base countries only. They have attacked and impacted many other countries in many ways. These attacks include several tactics such as hijacking a plane, kidnapping journalists, professionals, tourists and pilgrims, radicalising youth over the internet and recruiting them for terrorist attacks. Money laundering is yet another issue where illicit money is used to fund these terrorist organisations. The US has been a victim of a big terrorist attack in 2011. Since then the United States has been giving a lot of financial aid to many countries for security reasons, especially to Pakistan to curb terrorism. It has also invested a lot of money in restoring a democratic government in Afghanistan. However, the success of these aid programmes is far from visible. After several recent terrorist attacks in European countries by the Islamic State (IS) the European countries have also started giving substantial amount of financial aid to the countries to obliterate safe havens of terrorism.

Several experts have tried to construct models for providing a rationale for foreign aid. Among them, the model constructed by Dudley and Montmarquette is the pioneer, and other models are expanded on this model only (Baker, 2014). This model is based on the empirical research regarding the rationale behind providing foreign aid. The basic assumption of this model is that people usually give because of their vested interests. Now when it comes to giving aid or gifts what is received in return is something intangible and difficult to quantify; if the return is tangible and quantifiable, then it would be called an exchange rather than a gift (Dudley and Montmarquette, 1976). The researchers believe that those altruistic people who expect absolutely nothing in return



and donate anonymously are likely to be in the minority in a society. Therefore, when public funds are transferred from one country to another country the reasons are most likely other than altruism.

At the end of their research Dudley and Montmarquette (1976) summarise the major reasons for providing foreign aid. These reasons include: first, support for the national political interests of the donor countries by the recipients. Second, economic benefits in the form of more exports to the markets of the recipient countries. Third, expression of gratitude or some favourable changes in the lives of the people of the recipient countries.

As far as rationale behind providing foreign is considered it depends on various factors. The features of reasons for providing financial aid have undoubtedly changed after the end of the Cold War. However, the reasons more or less revolve around the self-interest of the aid providers. The reasons for providing financial aid can also be categorised on the basis of three periods. First, the period before and during the World War II. Second, the period of Cold War. Third, the period after the end of the Cold War.

The rationale for foreign financial assistance before and during the World War II was building political alliances for support in the two great wars, the supply of finances to colonies for establishing and promoting colonial interests. After the end of the World War II, it was for rebuilding the war ravaged European countries. During the period of the Cold War, the foreign aid went mainly to resist and counter communist influence in the developing countries, to gain support for the Western world. Foreign aid was also provided to promote liberal and democratic market economies, i.e., aid for trade facilitation, and to raise the level of standard of living of people in the developing countries. The world had already seen two devastating World Wars; now they were looking for a peaceful world which naturally benefits all the nations. Trade and interdependence were promoted among nations to ensure peaceful order in the international system. An impeccable example of this is the establishment of European Coal and Steel Community (ECSC) to promote trade relations and interdependence among the previously fighting European nations. The Western world also wanted to access new markets of the developing countries for which they tried to change the taste and preferences of the people in the developing world through their aid to make their products find acceptance in the markets of the emerging economies. So not only raw

material from the Third World was important their large markets were also a point of attraction to the trade-oriented West. After the end of the Cold War, several new reasons cropped up, however, alleviation of poverty and raising the levels of human development, among others, remained as the core ideals for providing financial aid. These new reasons include counter-terrorism operations, combating climate change and its impact on the livelihood of people especially agriculture, etc. garnering support at the multinational forums such as the United Nations. More recently aid for giving shelter to refugees has also come up in the wake of European refugee crisis where several European nations gave substantial aid to Turkey among other countries to provide shelter and basic facilities to refugees from West Asia and North Africa and to prevent them from entering Europe. There is also evidence that the amount of financial aid was reduced when imports from the developing countries increased to the aid provider countries (Lundsgaarde et al., 2007). The above stated are the apparent reasons for giving financial aid to developing countries. These reasons can change, and they do change according to the need and time of the aid providers and aid receivers. Nevertheless, the rationale behind providing aid is clear in the head of aid providers – promoting vested interests of their nation. The rationale behind aid explained by Dudley and Montmarquette through model is commendable. However, the three reasons given by them stem from a single source – self-interests of the aid providers. The disproportionate benefits that the aid providers drive from aid to the developing nations will be discussed in the fourth chapter. However, a part of it is explained in the dollar supremacy. The dollar supremacy is discussed below.

## **2.4 Dollar Supremacy**

The United States emerged as the world's super power after the Second World War. The power of the United States was in both military and economic terms. At that time the United States held the largest gold reserves (Amadeo 2018). The developed countries of the world entered into the Bretton Woods agreement in 1944. They pegged the exchange rate for all currencies to the U.S. dollar. Through this agreement other backed their currencies with dollars, rather than gold (Amadeo 2018). Ever since the Bretton Woods agreement, the dollar has become the world's dominant reserve currency and continues to do so. The relative strength of the economy of the U.S supports the value of the dollar.

The study focuses on dollar supremacy since US used its aid to increase its trade and further its diplomacy with the developing countries to the extent that the developing countries became dependent on the dollar for almost all international economic transactions. In one way they also became dependent on the aid for the required dollars. Trade has disproportionately benefitted the economy of the United States, which has ultimately strengthened its currency vis-à-vis others currencies in the world. The aid for trade policy is well discussed in the rationale behind aid section. In this section, it further elaborates on the sole issue how the aid was used to strengthen the US economy, which made it a world economic hegemon. Economic hegemony naturally translates into the US dollar dominating the world's currency reserves.

The US dollar dominates the foreign exchange market. At present more than 85 percent of foreign exchange trading involves the US dollar, and the percentage of the world's debt that is issued in the US dollar is 39 percent (Amadeo 2018). The natural consequence of this is that foreign banks require a lot of dollar reserve to conduct their business. Other countries, especially the developing countries have to struggle hard to accumulate large dollar reserves, failing which they impelled to borrow from international financial institutions. Such kind of borrowing perpetuates their economic vulnerability. Although the Bretton Woods agreement entered into 1944, it was only by the early 1970s that the dollar had become the world's dominant reserve currency (Amadeo 2018). The dominance of the US dollar was further enhanced in 1974 when it entered into an agreement with Saudi Arabia that oil trade would be dominated in US dollars (Spiro 1999). Now it is natural for most countries to maintain large reserves of US dollar to safeguard their economies against any oil shock as most countries in the world import oil. The developing countries had even more reasons to maintain huge reserves of the dollar to guard their delicate economies and currencies against any economic shock.

With the rising demand for US dollar, the US government printed more fiat dollars, and other countries had no option but to accept them in payment for their exports. These dollars came back to the US in the form of investment in the treasury bonds and similar financial instruments. This return of the dollar compensated for the outflow of the dollar. These dollar transactions made the United States a pre-eminent nation in the global financial services industry, which remains intact (Hensman and Correggia, 2005). Other nations are forced to accept fiat dollars as a currency for financial

transactions all over the world because they are left with no choice. Even today the world doesn't have many choices in the form of world's reserve currency. The US dollar continues to dominate the scene.

The liberal market economy<sup>4</sup> has always been promoted by the Western countries. Foreign aid has been well used to propagate the idea of market economies in the developing world. The simple reason is this that the Western world benefits from international trade. America has benefitted immensely from the international trade. The website of the United States Chamber of Commerce says that America cannot have a growing economy or lift the wages and income of its citizens unless it continues to trade with 95 percent of the world's population that lives outside the United States (U.S. Chamber of Commerce 2015). The data from the Federal Reserve Bank of St. Louis, U.S. shows that real manufacturing output of the U.S. has grown by nearly 80 percent over the past 25 years (U.S. Bureau of Labor Statistics 2018). This growth is the continuation of a long trend, i.e., U.S. manufacturing value-added has grown eightfold since 1947 in real terms (U.S. Chamber of Commerce 2015). International trade played a major role in these achievements; however, due to lack of data, it is not clear how much of this trade is conducted with the developing countries.

The US dollar hegemony has a great role to play in explaining and supporting the imperialism of the United States. It defended its imperialistic behaviour in many ways. Hensman and Correggia (2005) talk about these ways while underscoring the need to challenge the US dollar hegemony to build a more equitable international system. These ways include defending democracy against the spread of communism. While after the disintegration of the Soviet Union the reason was 'war against terrorism.' It evoked the principles of national security and national interest to justify its global dominance. To do so, the US requires great military power. For military strength, it requires huge economic power. The dominance of the US dollar allows the financial dominance of the US as well as its limitless expenditure on thousands of troops garrisoned throughout the world. The US is faced with a huge deficit of \$665 billion<sup>5</sup> and had a total trade deficit in 2017 of \$566 billion (Amadeo, 2018). Even then it is able to maintain its

---

<sup>4</sup> Liberal market economy involves existence of competitive markets and no individual producer or consumer can control the prices of the products or the resources. It also involves minimum intervention by the government of a country in the market operations.

<sup>5</sup>[https://www.usgovernmentspending.com/federal\\_deficit\\_chart.html](https://www.usgovernmentspending.com/federal_deficit_chart.html)

financial and military hegemony. It is because of the dominance of the US dollar. Underlining the vital role of US dollar hegemony in ensuring the global hegemony of the United States the authors went on to write that the end of the US dollar hegemony will be the end of the ‘Empire’ of the US (Hensman and Correggia, 2005). Emmanuel Todd writes that an imperial economy depends on drawing wealth from other countries without giving them anything in return (Todd 2003). The United States depends on other countries more than other countries depend on the US to maintain its dollar hegemony. This dependence explains the behaviour of the US in terms of its strategic need to control the resources of the world as well as maintain its global dominance (Hensman and Correggia, 2005).

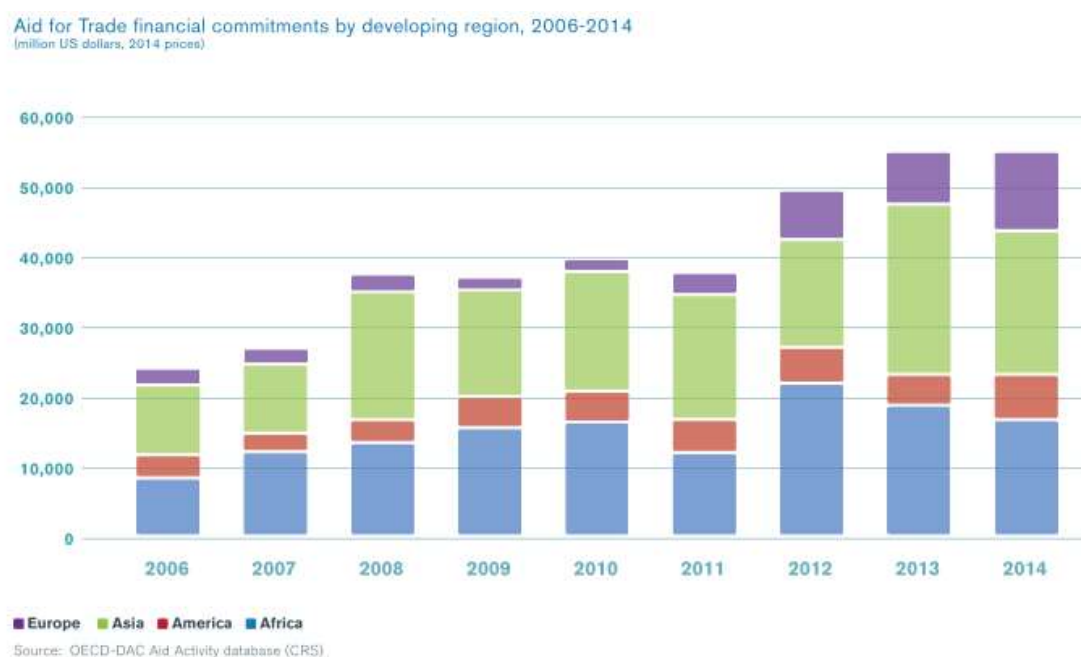
WTO’s World Trade Statistical Review 2016 (WTO 2016) talks about ‘Aid for Trade’ policy. The abstract is produced below:

“The Aid for Trade initiative aims to help developing countries use trade as a means of achieving economic growth and alleviating poverty. The initiative supports the integration of developing countries – and particularly least-developed countries – into the multilateral trading system by mobilizing international resources to address the constraints experienced by these countries so that they can participate more effectively in global trade and benefit from this activity. One of the key aims of the initiative is to enhance the capacity of developing countries to trade and to take advantage of market access opportunities.

Total Aid-for-Trade commitments in 2014 (the latest year for which data is available) totalled US\$ 54.8 billion, with approximately US\$ 7 billion spent on multi-country and regional programmes. Chart 6.12 shows the regional distribution of Aid-for-Trade commitments from bilateral and multilateral donors. Asia and Africa remain the main recipients of Aid for Trade.”

The Aid-for-Trade commitments in 2015 totalled US\$ 53.9 billion, which is a little less than what was committed in the year 2014. It is clear from the above extract that the main focus of the international aid providers is in Asian and African countries.

**Figure 2.1: Aid for Trade financial commitments by developing region, 2006-2014**



Source: World Trade Statistical Review 2016

## 2.5 Conclusion

Foreign aid is apparently meant to help less affluent countries improve their economic condition. However, this aim of foreign aid to improve the economic conditions of the developing countries has not been achieved in many regions of the world. This is not to say that the recipient nations have not benefitted at all from foreign aid. They have benefitted, but the results are not satisfactory. The growth and development in these countries have not been proportionate to the amount of financial help they receive. In this context analysing the rationale behind providing aid becomes immensely important. Rationale and various reasons have been discussed in this chapter for providing financial aid to the less affluent nations. Broadly they include – humanitarian reasons, economic reasons, strategic interests, and political reasons. Humanitarian reasons include alleviation of poverty, raising standards of living of people by spending money on social services such as education, health and sanitation facilities, generating employment, and sending financial help after natural disasters, etc. Economic reasons include giving financial aid to generate trade i.e., to create an export market for the goods produced in the economies of aid providers. Other economic reasons include generating savings in the aid recipient countries, changing the taste and preferences of the aid recipients to make them buy more of foreign goods and services. One good

example of this is immense of popularity of western fast food like pizza, burger, French fries, and carbonated drinks in the developing world. The fast food chains from the western countries are making huge profits by selling their products outside the countries of their origin. Strategic and political reasons for providing financial aid include aid for containing communism in the emerging economies, promoting democracy and human rights, curbing terrorist activities and promoting security. Recently environmental aid has also started getting a big share of total financial aid. Environmental aid consists of financial resources for combating climate change, desertification, improving depleting natural resources, etc. All the incidents from the history of the international aid to the rationale behind it and the dollar supremacy are well interlinked. They all indicate that the rich and powerful Western world has always tried to influence the course of events in the international arena to serve their national interests. Starting from foreign aid during colonial times to aid to newly independent nations to aid-for-trade at present, it is all done to serve the national interests of the aid providers. The aid providers want to shape the world economy in their own way, which is liberal market economy. Not every time the foreign aid may be given out of self-interest, but as the literature and data would show us most of the times, it was given to provide economic, political, and strategic gains to the aid providers.

\*\*\*\*\*

## Chapter – 3

### Impact of Foreign aid on the Pacific Islands and the Role of Pacific Islands Forum

---

*“U.S. bureaucrats giving foreign bureaucrats money is a guaranteed failure. And we've had about 50 years' experience at failing with foreign aid.”*

- **Newt Gingrich**<sup>6</sup>

(Former Speaker of the United States House of Representatives)

The World Bank has called the economic growth and development in the Pacific Island nations as “the Pacific Paradox” (Herr 2015 & Dornan and Pryke 2017). The reason for calling the economic growth in the Pacific region a paradox is that even after receiving billions of dollars as foreign aid the rate of economic growth continues to be poor. The Pacific Islands region is the most aid dependent region in the world (Dornan and Pryke 2017), with per capita aid ranging from about \$ 69 in Fiji to \$1,108 in Palau in 2007 (Watsa, 2009). In 2009, Foreign aid accounted for as much as 34 percent of GDP in the Solomon Islands and 68 percent in Tuvalu (Feeny et al. 2014). Pacific island countries (PICs) receive financial aid from many countries. Major aid providers include Australia, the United States, New Zealand, Japan, and China (Zhang 2015). Huge amounts of foreign finance received in the form of development assistance have improved the living standards of many Pacific Island countries, however, this view is contested. Moreover, it is not true for all Pacific Island nations (Dornan and Pryke 2017). At the same time, some argue that there have been certain side-effects of this developmental assistance which have made most Pacific Island countries nonchalant about their institution building, and revenue generation activities. Not only this, their economies have become heavily dependent on the foreign aid over a long period of time. The aid has altered the traditional way of living of people and the way they conducted their economies.

---

<sup>6</sup>Newt Gingrich Quotes, BrainyQuote.com, Xplore Inc, 2018, Accessed July 2, 2018 [Online: Web] URL: [https://www.brainyquote.com/quotes/newt\\_gingrich\\_753925](https://www.brainyquote.com/quotes/newt_gingrich_753925).



The major aim and theme of this chapter intend to highlight the impact of foreign aid on the economies of the Pacific island nations and the lives of the Pacific people. The other major part of this chapter throws light upon the role of the Pacific Islands Forum (PIF) in improving the situation regarding deals of foreign aid and its administration. For the convenience of analysis, this chapter is divided into four parts. The first part discusses the economic realities and vulnerabilities of the countries in the Pacific region. The second part analyses the need for foreign developmental assistance. It tries to answer the basic question – do the Pacific island countries (PICs) really need aid? In other words, can't they survive on their own? The third part elaborates on the impact of international aid on a) the government institutions, b) economies of the PICs, c) lives of the people. And the last part talks about the role of the Pacific Islands Forum in uniting the voice of these small countries and in helping them strike better deals with the aid providers, besides increasing the aid effectiveness.

### **3.1 Economic Realities of the Pacific Island Nations**

The Pacific Island nations are among the tiniest nations in the world in terms of the land area. At the same time, their Exclusive Economic Zones (EEZ) in the Pacific Ocean are expansive and are even bigger than the total land area of India (World Bank 2018). Most of these nations are atoll island nations with limited land and other economic resources. As a result of this, any large scale economic activity including agriculture becomes a near impossible venture in the Pacific region. The only exceptions to this limitation are large scale fishing, ocean-bed mining, and tourism. However, because of lack of advanced and low-cost technology, even these activities operate on a limited scale. Such an economic engagement seems to have been insufficient in fulfilling the financial demands of the people of these countries even to guarantee a basic standard of living.

An important feature of small PICs is that they have very limited natural resources such as land, forests, mineral resources, etc. Other resources here refer to human resources, and capital resources. The scarcity of resources along with other internalities and externalities make these counties naturally vulnerable. Internalities refer to internal problem of these nations such as ethnic conflicts, dispersed territories, etc. Externalities refer to economic and political dependence on the aid providers. Many of the reasons for such vulnerabilities include their small land area, small populations, geographic

isolation and expansive dispersion, narrow production and export base, lack of economies of scale, limited access to international capital markets, exposure to shocks (both natural and anthropogenic), and heavy reliance on aid (Tumbarello, et. al. 2013). Some experts write that it is not always convenient to separate the effects of smallness from the effects of remoteness and marginality or those of newness. Also, in the end, it may not be profitable to do so (Connell 1991). Separating such effects from each other is not aim of this study. However, it definitely provides scope for a different study. The effects of these special attributes are mostly overlapping. However, the following paragraphs look at each of these attributes individually.

### 3.1.1 Human Resources

As far as human resource or population is concerned, most of these countries are sparsely populated. Fiji is the second largest country among these nations, with a population of around 847,000. Tuvalu and Nauru are the World Bank Group’s smallest members by population, with estimated populations of around 10,000 each. Table 3.1 provides the data on the population (2014) and the land area along with population density in the Pacific island nations. The Freely Associated State of Niue with New Zealand has a population of as less as 1600, which itself explains the constraints on productivity. While these nations have a sparse population, there are places here which have very high population density. Such places include Ebeye in the Marshall Islands, South Tarawa in Kiribati, and Funafati in Tuvalu. As mentioned earlier most of these nations are atoll nations, and in such a fragile environment, high population density creates a huge challenge for water supply systems, sanitation, drainage, and solid waste management. It also poses critical environmental and health risks.

**Table 3.1 Estimated population size and population density of Pacific Island Countries: 2014**

Country	Population Size (‘000)	Land Area (sq. km)	Population Density (per/sq. km)
PNG	7,587.2	462,840	16
Fiji	847.6	18,273	46
Solomon Islands	611.5	30,407	20
Vanuatu	271.1	12,281	22
Samoa	190.7	2,935	65

Kiribati	111.2	811	137
Tonga	104.2	650	160
FSM	102.8	701	147
Marshall Islands	53.8	181	297
Palau	17.7	444	40
Cook Islands	15.0	237	63
Tuvalu	11.0	26	424
Nauru	10.6	21	504
Niue	1.6	259	6
Tokelau	1.2	12	100
Total	9,937		

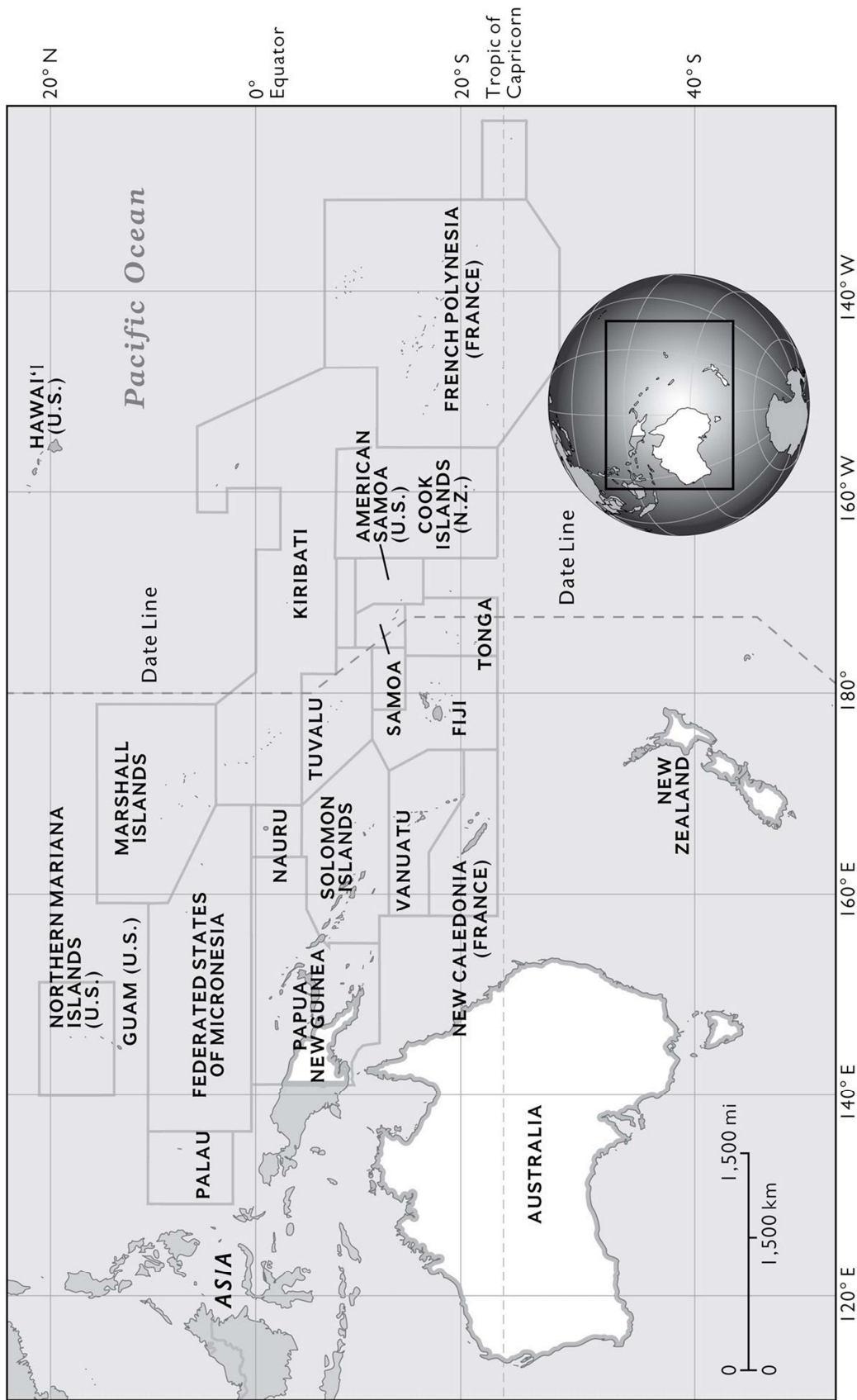
Source: UNFPA-PSRO estimates

The report of United Nations Population Fund (UNFPA) (2014) on the Pacific Island Countries mentions that small population sizes have been both a curse and a blessing for these countries. Small population size becomes a curse because of diseconomies of scale, which impede genuine development efforts. It means that per capita cost of infrastructure is very high here. High per capita cost is also one of the reasons why the even huge amount of foreign aid may not have made much difference in the development of the region.

### 3.1.2 Geographic Attributes

The Pacific Island nations are dispersed over the entire South-west Pacific Ocean. Some of them are in the northern hemisphere too. These nations consist of hundreds of islands which are situated far away from each other. Apart from their naturally dispersed land, the geographic isolation is another significant characteristic of these nations. Other established market economies of the world are situated far away from this region, except for Australia and New Zealand, and they are also not very close.

The islands of the Pacific have been described as fragmented and “sea-locked” with limited access to world markets. They suffer from the challenges of smallness and isolation which makes them heavily reliant on foreign aid for their development (Watsa, 2009). The Pacific Islands are distinct in their remoteness and isolation. The average Pacific Island is the 197<sup>th</sup> most remote nation as against the average Caribbean island nation which is only the 100<sup>th</sup> most remote (Watsa, 2009). Economic geography is very



Copyright © 2011 National Geographic Society, Washington, D.C.

# AUSTRALIA and Oceania

Map 3.1: Australia and Oceania (National Geographic Society)

important in determining the level of development in any country. Reshaping it is critical for ensuring long-term growth and development of any region. There are several economic and social problems that arise because of geographic dispersion and isolation. Such problems include – difficulty in establishing means of transportation and communication, establishing trade relations with other countries. Not just trade but any form of connection gets impeded by the geographic isolation of these island nations. Communication forms the basis of every exchange. Because of their dispersed territories divided by the waters of Pacific Ocean, communication becomes a difficult task among Pacific island nations. However, the scenario is not as bleak as it may sound. Some development has happened in the region, and the nations among themselves have established communications channels and transport facilities via water and air route.

### **3.1.3 Natural Resources**

Most Pacific Island nations have limited natural resources because of the limited land area as mentioned earlier. The coral atolls, such as Tuvalu, are very poor in terms of land for agricultural purposes (Chand, 2001). The most abundant natural resource for the PICs is fisheries that come from their expansive Exclusive Economic Zones (EEZ). National Geographic Society discusses the natural resources of Australia and Oceania (National Geographic Society 2012). Natural resources<sup>7</sup> of the continental islands of Australia, New Zealand, and Papua New Guinea support rich natural resource based economies whereas the other Pacific Islands have used their natural resources for subsistence rather than economic development. The discussion on the natural resources of Australia and New Zealand is not needed here as such. Papua New Guinea is the largest island nation among the Pacific Island nations. It has a relatively larger base of natural resources than other PICs and enjoys diverse choices to use them for economic development. Consequently, its natural resources are discussed separately.

The Pacific Islands are located in the warm equatorial region between the Tropic of Cancer and the Tropic of Capricorn. Main agricultural products of these islands include banana, coconut, kava (a plant whose roots are used to make a traditional beverage), and sugar cane. Fundamental commercial crops of Papua New Guinea include sweet

---

<sup>7</sup> Natural resources of Australia and New Zealand include mineral and metal deposits such as coal, iron ore, nickel, gold, uranium, diamonds, and zinc (National Geographic Society 2012).

potatoes, sugar cane, copra (dried coconut meat), coffee, cocoa, and rubber. However, over 85 percent of the population in Papua New Guinea is engaged in subsistence farming (the agricultural practice in which farmers grow enough food to feed themselves and their entire families with little or no surplus trade). The percentage may be even higher for other Pacific Island nations. Some of the noteworthy exports from these nations include Samoa's Taro, Tonga's vanilla and squash, and Fiji's sugar products (National Geographic Society 2012).

Local forests in the Pacific islands are a vital part of traditional economies. Forests are a major source of the livelihood and culture of the Pacific people. Commercial use of these forests is not prevalent. One of the few Pacific Island nations that support commercial forestry is the Solomon Islands, for which it forms around 70 percent of the nation's export (National Geographic Society 2012). As a result of this, the forest cover in the Solomon Islands is declining at a rapid pace. However, the wood industry forms an important part of the economy of Papua New Guinea. It has a distinct forest-ownership program in which tribal clan groups own 95 percent of the total land area of the country (National Geographic Society 2012).

Fisheries provide livelihood to many local peoples in the Pacific region. But again most of it is done for subsistence. Lack of infrastructure, investment, and technology make it difficult to carry out large scale commercial fishing. So although the Pacific people have enormous fish resources, they are not translated into enormous earnings. Papua New Guinea is among the few Pacific nations that have a wide range of small-scale and subsistence fisheries. Recently regional and international organisations, such as Pacific Islands Forum Fisheries Agency (FFA) have taken steps to build up the fishing industry in the Pacific Islands. The Pacific people are also ensuring that the practice of fishing is sustainable and that it does not lead to destruction of marine environment.

The Pacific region is a magnificent depository of minerals and metals. Still, most of these minerals are concentrated in the huge continental islands of Australia, New Zealand, and Papua New Guinea. Mining in Papua New Guinea is one of the largest employers in the country and accounts for 72 percent of its export earnings. Main exports include copper, gold, and oil. As mentioned earlier, most Pacific Island nations have very limited mineral resources. Nauru was once one of the richest countries in the world (Wikinews 2010) due to the presence of phosphate deposits in it. But now due to

excessive mining and mismanagement of wealth, it is one of the poorest in the world. Mining has destroyed any arable land this country had and also its capacity to sustain any industrial activity. New Caledonia has large deposits of nickel. The gold mining industry provides employment to a large number of people in Fiji. The Pacific region doesn't have much oil and natural gas resources as a result of which they must import oil and natural gas from far away countries to meet their demands. It increases the cost of energy resources thus impeding the development process.

### **3.1.4 Capital Resources**

The value generation capacity of the primary sector is generally low. The primary sector cannot be the dominant, permanent source of livelihood because its productivity level can never approach and have historically never approached those in manufacturing and services (Economic Survey 2017-18, 2018). It is for this reason why as the population of any developing country increases, it needs to shift the population working in agriculture to other sectors. Development of other sectors does not happen on its own. Setting up and developing manufacturing and services sectors require a substantial amount of financial capital. The dearth of finances with the people of Pacific island nations has already been discussed above. Most of them are engaged in the primary sector, and most production happens for subsistence. In such a case accumulation of capital for further investment becomes a near impossible task. This is a major challenge which stares the Pacific people in their faces.

Foreign Direct Investment (FDI) can be another source of capital. FDI flows are known to bring many advantages to the host economies. These include modern technology and know-how, managerial expertise, Research and Development, productivity and efficiency gains (Feeny et al., 2014). However, these benefits along with other long term impacts of FDI have been a subject of debate among the scholars of economics. It has been argued by the critics that policies to attract FDI can distort domestic incentives and crowd-out domestic investment, which displace domestic employment and firms (Feeny et al., 2014). In any case, the impacts of FDI are beyond the scope of this study. FDI is only mentioned here as a potential source of capital for generating economic development in the Pacific island countries.

### **3.1.5 Climatic vulnerabilities**

As mentioned earlier, the Pacific Islands are situated in the equatorial belt between the Tropic of Cancer and the Tropic of Capricorn. The Pacific region is extremely vulnerable to natural disasters. High frequency of extreme climatic conditions such as tropical cyclones, floods, droughts, violent storms, including earthquakes, and tsunamis keep devastating these countries. As a result, the Pacific people are always at risk of losing whatever economic, physical, and human resources they have built. The natural vulnerability has seriously impeded the long-term stable development process in the region. World Bank has referred to the Pacific as one of the most natural disasters prone region on earth (World Bank 2012). The cost of restoring the conditions after a disaster is huge. The consequences are worse especially for the poor people in the region which form the majority here. It is said that such natural disasters are going to increase in the future because of the adverse impacts of climate change. Along with this, the rise in sea level due to climate change poses an imminent existential challenge for the Pacific people.

### **3.2 Need for Foreign Development Assistance**

This section analyses the actual need of the Pacific Island countries for any foreign development assistance, keeping in mind the economic realities of these nations. Now that the preceding section has discussed the economic realities and vulnerabilities of the Pacific Islands, this section is better placed to analyse the need for foreign financial assistance for the economic development of these countries.

First of all, there is a need to understand the minimum level of development which any country aspires to have. The minimum level of development can be determined by answering a few questions such as – how many people are living in poverty? What is the number of unemployed people? What is the status of inequality in that country (Connell, 1991)? The answers to these questions can be found by looking at the data of the concerned countries.

According to the ILO, “youth unemployment in the Pacific is estimated at 23 percent”, which is particularly grave in nations such as “Marshall Islands, Kiribati, and the



Solomon Islands”<sup>8</sup>. Samoa is particularly facing a critical issue of unemployment among young people. Many of them have to travel overseas to find any work. According to Oxfam New Zealand, some of the serious problems that affect many communities in the Pacific region include a lack of basic amenities such as education, basic healthcare, safe drinking water, electricity, and telephone services. Oxfam puts the blame on more than two decades of poor economic performance, population growth, increased migration to urban areas, and increasing inequalities for continued poverty in the region, which remains a significant problem for the Pacific people (Oxfam New Zealand 2017a).

Pressure is being placed upon these countries by the developed nations to make commitments to open their domestic markets to foreign goods and services (Oxfam New Zealand 2017b). Lack of any systematic data regarding human development and poverty in the Pacific Island nations is a big impediment in coming to any definite conclusion regarding poverty among these people. However, data on some parameters concerning some of the Pacific countries are present in Human Development Reports. Some key facts about the estimates of poverty are collected by the Oxfam New Zealand from many sources such as the UNDP Human Development Report, The World Factbook, and the Asian Development Bank Basic Statistics. The data is presented in table 3.2.

**Table 3.2 Data expressed as a percentage of the population in the respective countries**

<b>Countries</b>	<b>Population below poverty line (2013)</b>	<b>Children enrolled in primary education (2012)</b>	<b>Population with no access to safe drinking water (2015)</b>	<b>Population with no access to sanitation (2015)</b>
Papua New Guinea	28	86	60	-
Vanuatu	12.7	99.2	5.5	-
Fiji	31	-	4.3	11.4

<sup>8</sup> Accessed on 03 May, 2018 [Online: Web] URL: <http://www.ilo.org/suva/areas-of-work/youth-emp-policy/lang--en/index.htm>.

Samoa	26.9	-	-	-
Solomon Islands	-	80.7	19.2	-
Tonga	24	-	0.4	9

Data Source: Oxfam New Zealand

Growing inequality is also a major concern in the Pacific Island nations. The divide between the rich and the poor is significant here unlike in many developed nations. The Coefficient of Human Inequality (2015) is presented for some Pacific countries is presented below.

**Table 3.3 Coefficient of Human Inequality (CHI)**

Countries	CHI	Year
Australia	8.0	2015
Fiji	15.1	2015
Kiribati	32.0	2015
Federated States of Micronesia	34.9	2011
Solomon Islands	23.8	2015
Vanuatu	17.2	2015

Data Source: UNDP Human Development Reports<sup>9</sup>

A higher value of Coefficient of Human Inequality (CHI) shows a higher level of inequality in a country. The situation of inequality seems particularly serious in Federated States of Micronesia, Kiribati, Solomon Islands. CHI of Australia is presented for the reason of comparative study.

Several other findings by Oxfam New Zealand regarding poverty in Pacific include the following. The number of Pacific people living in poverty is around four million which is almost half of the total population in the Pacific islands region. Around one third of the Pacific population, that is “approximately 2.7 million people”, do not generate adequate income to meet their basic needs. Kiribati, Solomon Islands, Papua New Guinea are among the most economically disadvantaged countries in the world (Oxfam New Zealand 2017a). The number of Fijians living in squatter settlements in urban

<sup>9</sup>Accessed on 04 May, 2018 [Online: Web] URL: <http://hdr.undp.org/en/data>.

areas is around 120,000, that is around fifteen percent of the total population (Oxfam New Zealand 2017a).

Among the school-age children who do not have access to basic education in the Pacific region is around one million. Also, “the primary school completion rate in Vanuatu was just 59 percent in 2006.” The literacy rate among adults in the Solomon Islands is just 65 percent. Pacific region also fares poorly when it comes to gender equality and women empowerment. Representation of females in key political and administrative decision-making jobs in the Pacific is among the worst. Female representation is just 2.5 percent as against the target of 30 percent. Violence against women is also said to be among the worst in the Pacific. Around 50 percent of women in Samoa and 64 percent of women in the Solomon Islands have experienced physical and sexual violence (Oxfam New Zealand 2017a).

Only 50 percent of Pacific people have access to a source of safe drinking water (Oxfam New Zealand 2017a). The condition is better in sub-Saharan Africa where the percentage is 60. The Millennium Development Goal of reducing “child mortality to 30 per 1000 live births” has been missed by both Kiribati and Papua New Guinea. The child mortality rate is still 69 in Kiribati. Even the condition of infant vaccination is not very good in the Pacific. It is much worse than sub-Saharan Africa, where at least “seventy-two percent of infants receive the vaccine” as against only fifty-eight percent in the Pacific. The percentage of the population in the Pacific with access to adequate sanitation is also not very appealing. The figure is just fifty-three percent as against the MDG target of seventy-six percent (Oxfam New Zealand 2017a).

With the scarcity of natural resources, financial capital, and technology, it is but natural for these countries to have such low levels of human development indicators. Poverty is a direct cause and consequence of such a situation. Hence, the need for external help is understandable to elevate the socio-economic conditions of the Pacific people. The western world has been generous in providing financial aid to the Pacific countries. As mentioned at the outset of this chapter, the Pacific region is the most aid dependent region in the world. However, the way in which the financial aid was utilised and administered has not resulted in desired economic growth and development. The succeeding section looks at the impact of foreign aid on the Pacific Island countries.

### **3.3 Impact of Foreign aid on the Pacific region**

Overseas Development Assistance (ODA) or Foreign aid has made some positive changes in the economies of the PICs. It is believed that foreign financial assistance has resulted in improved standards of living in many island countries in the Pacific. However, this notion is widely contested and doesn't hold true for all the Pacific island nations (Dornan and Pryke, 2017). The agenda of financial assistance included promotion of market driven economic growth, liberalisation of trade, and 'good governance' practices, which represents a shift from an emphasis on maintaining states to a determination to alter the Pacific island societies and economies (Wesley-Smith, 2006). This section will look at the impact of foreign aid on three different aspects of the Pacific Island countries. They are – government institutions, economies, and lives of local people, i.e., their societies.

#### **3.3.1 Impact on government institutions**

Some of the largest chunks of the foreign financial assistance go in the funding of the government deficit. This kind of aid mostly comes with some conditions attached. Among others, these conditions include cutting down on public expenditure such as health, education, sanitation, food subsidies, etc. At the same time, private investment and market driven growth of the economy is encouraged. The conditions with the aid are one aspect of it.

The other aspect is that the foreign aid may generate a lackadaisical attitude among the governments of the recipient nations. Because the deficit of these governments gets funded by foreign grants, they barely make any conscious effort to create revenue generating institutions or activities for the government. It ultimately leads to low quality of institutions in small states, though not in large states (Bowman and Chand 2008). However, the potential of aid in reducing the tax collection efforts of recipient governments is debatable. One study has found such evidence in Melanesia (Feeny 2007), while other another study found no such evidence throughout the Pacific region (Gouy 2011). Even the international literature on foreign aid has not found any consistent impact on revenue generating efforts and revenue per se (Morrissey 2014).

Corruption is widely unpopular for impeding the equitable economic growth in any country. Corruption in the Pacific island nations is another reason why the impact of monetary assistance is not equitable (Goff, 2006). A study on the impact of foreign aid

has concluded that aid programs lead to some loss of sovereignty among the governments of small island nations due to the provisions of reporting and planning that come along the aid programs (Murray and Overton 2011).

### 3.3.2 Impact on the Economies of the Pacific Island Countries (PICs)

As already mentioned earlier, most of the Pacific Island countries are small, i.e., they do not have enough resource base to generate any substantial economic activity. Nor do they have a large tax base to fund their economic growth. In such a situation foreign aid helps the Pacific Island countries to compensate for the shortfall in their economies (Hezel 2012). Foreign financial assistance funds the development of various government services and infrastructure that are necessary for the growth and development of citizens of any country. Aid has made some positive difference in the economic growth of some Pacific countries which receive aid at a slightly higher rate<sup>10</sup> than the other Pacific island countries. These countries include Vanuatu, Samoa, the Cook Islands, and Tonga (Hezel 2012).

Data regarding international aid as a percentage of the GDP of PICs and as a percentage of government revenue show that foreign grants constitute a large percentage of GDP and government revenue most PICs. Figures are shown in the table below.

**Table 3.4 Aid as a percentage of Government Revenue and GDP**

Country	Aid as a percentage of Government Revenue	Aid as a percentage of GDP
Cook Islands	18	7
Federated States of Micronesia	63	34
Fiji	1	0
Kiribati	42	69
Marshall Islands	64	45
Palau	48	24
Papua New Guinea	13	4
Samoa	22	9
Solomon Islands	13	4

<sup>10</sup> Aid received as a percentage of the total government budget.

Tonga	23	8
Tuvalu	63	74
Vanuatu	27	7

Source: ADB (2010)<sup>11</sup>

When foreign aid forms such large percentage of Government revenue and Gross Domestic Product (GDP) any fluctuation or unpredictability regarding the receipt of aid can cause huge economic shocks in the recipient economies. Dornan and Pryke (2017) argue that predictability of aid is a major problem in the Pacific islands region. Foreign financial assistance is also known to be highly volatile. Evidence at the international level shows that volatile foreign aid negatively impacts the economic growth of the recipient countries (Kharas 2008). Fragmentation of aid is also serious concern regarding its effectiveness (OECD 2009). However, fragmentation of aid is lower in the Pacific region than in the other countries (Dornan and Pryke 2017). Unpredictability, volatility, and fragmentation of foreign aid make the economies of Pacific island countries particularly vulnerable. The large percentage of foreign aid to the government revenue and GDP make the PICs dependent on the foreign assistance to a large extent.

### **3.3.3 Impact on the Lives of the Pacific People**

This section tries to find out the impact of foreign aid on the lives of people in terms of health, education, employment, women empowerment, political participation, etc. in the Pacific region. Dornan and Pryke (2017) find in their study on aid effectiveness in the Pacific region that aid has improved the standards of living of the Pacific people beyond what they would be without such an aid. Foreign aid has also improved infrastructure, besides improving social and economic progress in the Pacific region. Foreign aid has led to an improvement in the better availability of health and education facilities. The infrastructure concerning these facilities has also improved. It is said that if the foreign aid is reduced in an unpredictable manner, it will seriously impact the education and health outcomes in the region (Wilson 2014). At the same time, food aid and foreign dependence have changed lifestyles of the Pacific people and has deteriorated their health status particularly in the Federated States of Micronesia and Nauru (Cassels 2006). Foreign developmental assistance has improved infrastructure

---

<sup>11</sup> Accessed on 25 June, 2018 [Online: Web] URL: <https://sdb.sadb.org/sdb/index.jsp>.

such as roads, bridges, docks, buildings, and various institutions (Manetarai 2008). The amount of aid has been scaled up after Millennium Declaration with the objective of poverty alleviation, but this 'scale-up' has benefited countries with higher income more than countries where poverty is concentrated (Dornan and Pryke 2017). However, even after receiving millions of dollars in aid only two of the Pacific Island countries were able to achieve all the Millennium Development Goals (MDGs) targets, three countries could achieve at least half of the targets, and the remaining countries could achieve less than half (Tuimaleali'ifano 2015). New Zealand started its aid program on education in the Solomon Islands in 2002 which majorly focused on the primary education. This has led to some improvement in the education facilities and better education outcomes in the Solomon Islands, however, the improvement has been skewed in favour of male students, also there are wide disparities in terms of qualified teachers, head master's response to the improvement of school, accessibility, and community participation (Manetarai 2008).

As already mentioned, Pacific island countries are vulnerable to natural disasters such as tropical cyclones, floods, droughts, earthquakes, tsunamis, and volcanic eruptions. The frequency of natural disasters is very much likely to increase with the rising impacts of global warming and climate change. These extreme climate events keep on devastating lives of the Pacific people by destroying infrastructure and impeding access to basic social services. Foreign aid helps them in recovering from these natural disasters (Manetarai 2008). For instance, USAID helps in responding to natural disasters in more than fifty countries every year (USAID 2017). Several aid agencies, including that of the UN, coordinate in responding to the natural disasters by sharing of information and initiating contingency plans (USAID 2017).

### **3.4 Role of Pacific Islands Forum with Respect to Foreign Aid**

This section analyses the role of the Pacific Islands Forum (PIF) in the aid process. It studies the way in which the PIF intervenes in the way aid is provided and managed in the Pacific region. It tries to see how far the PIF has been able to provide a united and strong voice to the small island nations of the Pacific concerning foreign financial assistance.

The Pacific Islands Forum (PIF) was formed to enhance cooperation among the countries of the Pacific region in certain areas of social, economic, and political

importance. The regionalism priorities for the PIF are climate change and the disaster risk management, fisheries, ocean management and conservation, cervical cancer, a framework for rights of persons with disability, information and communication technology, impacts of nuclear testing in the region, and regional mobility<sup>12</sup>. The vision of the leaders of the Pacific island nations is represented in the Auckland Declaration of 2004. The Auckland Declaration views the Pacific region as a region of peace, harmony, and security. The declaration recognises and values the wide diversity of the Pacific and seeks a future in which all this is honoured and developed. It emphasises on the importance of governance, sustainable management of the resources of the Pacific, democratic values, and human rights. The leaders also seek partnerships with their neighbours and other nations to ensure a sustainable economic existence for all (Toy 2006). Leaders of the Pacific nations have identified various areas of concern where immediate response is needed. These areas of concern are poor governance, slow economic growth, and bad human development (Toy 2006). To realise their dream of making the Pacific region a region of peace, harmony and sustainable development the leaders of the Pacific region have set some priorities. The new priorities revolve around economic growth, sustainable development, governance and security, globalisation, and partnerships (Toy 2006).

PIF has several Forum Observer Countries, Observer Organisations, and Dialogue Partners. “Forum Observer Countries and Territories” include American Samoa, Commonwealth of the Northern Marianas, Guam, Timor Leste, and Wallis and Futuna. “Forum Observer Organisations” are ACP Secretariat, Asian Development Bank, Commonwealth Secretariat, International Organization For Migration, United Nations Secretariat, Western and Central Pacific Fisheries Commission, and the World Bank. “Forum Dialogue Partners” include 18 countries – “Canada, People’s Republic of China, Cuba, European Union, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Malaysia, Philippines, Spain, Thailand, Turkey, United Kingdom and the United States.” PIF also works with a Pacific Trade Invest Network. PIF works in collaboration with Forum members, Forum Observers, and Council for Regional Organisations in the Pacific (CROP) at the regional level. At the international level, the PIF works with the Forum dialogue partners, Forum Development Partners, and

---

<sup>12</sup> Accessed on 30 June 2018 [Online: Web] Mentioned on the website of the Pacific Islands Forum Secretariat, URL: <https://www.forumsec.org/>.



International Organisations to promote and gather support for the agenda of the Pacific region. PIF also indulges with the civil society and the private sector to understand and develop the priorities for the region. The ways in which the Forum's secretariat engages with its partners include formal meetings, policy consultations, and participation in the global events such as the meetings of the United Nations General Assembly and Climate Change conferences of the UNFCCC. PIF also organises various seminars, workshops, and events across the Pacific region to draw attention on priority issues such as climate change, economy, and trade.

Leaders of the Pacific island nations realise that the Pacific region is the most aid dependent region in the world and that per capita aid is the highest here. Despite such high levels of foreign aid, the development in the region is lagging behind other regions of the world. To tackle this problem of poor economic development, the PIF responded by forming a Forum Compact on Strengthening Development Coordination in 2009. The Forum Compact includes various initiatives such as – a) tracking of annual Millennium Development Goals, b) peer reviews of national policies, systems, and policies, c) reporting to development partners on aid effectiveness commitments, d) reforms of Public Financial Management (PFM), e) more effective financing for combating climate change, f) engagement with private sector, g) development of infrastructure through enhanced investment<sup>13</sup>. At the Forum Compact, the political leadership of the Pacific region committed to improving the efficiency of both the domestic and foreign resources (aid) to accelerate the efforts towards achieving the MDGs by 2015 (Saili 2016). The Forum Compact mainly focusses on better aid management. The Pacific Islands Forum Secretariat has been tasked to facilitate the implementation of the Forum Compact throughout the PIF member nations. There is a system of annual reporting by the PIF Secretariat on the progress made by implementation of development programs. Two regional reports are prepared to assess the progress. The two reports are – a) Pacific Islands MDGs Tracking Report, and b) Tracking the Effectiveness of Development Efforts Report. Annually four regional meetings happen which include PIF Secretariat, Pacific Island countries, and Development partners.

---

<sup>13</sup> Accessed on 02 July, 2018 [Online: Web] URL: <https://sustainabledevelopment.un.org/partnership/?p=7669>.

Paris Declaration on Aid Effectiveness (2005) provides for better cooperation between aid providers and aid recipients to increase the effectiveness of foreign aid. The declaration has five fundamental principles to improve the effectiveness of aid. These principles provide for developing countries to set their own strategies for poverty alleviation, aligning with aid providers and using local systems, sharing of information for better coordination, shifting of focus on results and measurement of results, and setting accountability among aid providers and recipients for development outcomes (OECD 2018). After the Paris Declaration, the Accra Agenda for Action (2008) was designed to strengthen and improve the implementation of the Paris Declaration. The main purpose of the Accra Agenda is to assess the progress and set the agenda for an enhanced move towards the Paris targets (OECD 2018). Pacific Island countries are a signatory to the Paris Declaration and the Accra Agenda. They work in close collaboration with the aid providers to ensure the effectiveness of the aid.

The Pacific Plan for Strengthening Regional Cooperation and Integration was adopted by the Pacific island countries in 2005 to address the challenges of globalisation and security issues. The Pacific Plan intends to encourage better governance, faster economic growth, sustainable development, and increased regional security (Huffer 2006). However, the problem with the vision envisaged in the Pacific Plan is that it doesn't present a clear picture of the future of the Pacific region, neither does it provide a framework to achieve the goals mentioned it (Huffer 2006).

### **3.5 Conclusion**

The chapter discussed the economic and political realities of the Pacific Island countries (PICs). It has been found that the PICs do not possess enough economic and human resources to sustain a high level of economic development on their own. Because of lack of resources and other problems such as poor governance, ethnic conflicts, and poor human development it becomes very difficult for PICs to imagine a future for themselves which will be completely free from foreign aid. As a consequence, foreign aid continues to fill in the shortfalls in the economic resources of the Pacific nations. Aid has improved the lives of people in many ways. The improvement in education, health facilities, infrastructure because of aid is visible in the Pacific region. This improvement may not be equitable and is varied among countries. However, it is to be noted that the growth is better than what it could have been without foreign aid.

The only plausible option that the Pacific nations have is to increase the effectiveness of foreign aid through enhanced cooperation, coordination, responsibility, and accountability with the aid providers and implementing agencies. There are several issues regarding the provision of foreign aid. These issues include – unpredictability, fragmentation, etc. There are other issues at the level of countries and the region that hamper the aid effectiveness such as corruption, poor governance, poor coordination among the implementing agencies. The Pacific Plan envisions to tackle these problems. The Pacific Islands Forum serves as a strong and unifying platform for the PICs to strengthen their regional identity, besides presenting themselves as a united force in front of the world. By coming together as a regional force, the PICs stand a better chance of enhancing the effectiveness of aid through better coordination with the development partners. Forming of Forum Compact, preparing review reports, signing Paris Declaration on Aid Effectiveness, and the Accra Agenda for Action are some of the very important steps on the part of the leaders of the Pacific Island nations.

\*\*\*\*\*

## Chapter 4

### **Aid dependency and Disproportionate Benefits to the Aid Providers**

---

*“We should measure welfare’s success by how many people leave welfare, not by how many are added.”*

**Ronald Reagan**<sup>14</sup>

The basic idea of this chapter is that foreign aid over many years of its existence has created its space in the economies of the aid recipient countries. As mentioned earlier in this study, foreign aid has not been able to create self-sufficient economies, and this has made aid receivers somewhat used to aid over many years. Recipient nations plan their expenditure according to the aid flows. If the aid flows stop in an unpredictable manner, the economies of aid recipient nations become highly vulnerable to economic and various other kinds of shocks. These other shocks are generally an extension of economic instability and may include ethnic conflicts, and famines, etc. In such a scenario it would not be incorrect to say that aid has generated a certain level of aid dependency among the aid receiving nations. The above described dependency is called economic dependency. There is another kind of dependency in political spheres; it is called political dependency. Political dependency is generated at two levels - a) at an international level and b) at the domestic level. Dependency at the international level is exhibited in international forums where aid provider countries influence the decisions and voting patterns of the aid recipient countries (Wittkopf 1973). At the domestic level of the recipient countries, aid dependency affects political reforms and development. This chapter discusses the dependency generated by foreign aid among the developing nations particularly among the microstates of the Pacific region. It deals with both the political as well as the economic dependency while keeping in mind the economic and political realities of these nations.

The present chapter consists of six parts. First part elaborates how aid is provided to the Pacific Island nations. The second part discusses the idea of disproportionate benefits to the aid providers. It also verifies whether they had any “disproportionate benefits” or not. Third and fourth parts discuss the economic and political dependency, respectively.

---

<sup>14</sup> Remarks at Governor’s Conference on Medicaid, San Francisco, 1968; Accessed on 10 July 2018 [Online: Web] URL: <http://www.theccwr.org/reagans-template/>.

Fifth part discusses the issues with the aid providing agencies. Sixth part makes some recommendations to improve the aid agencies and increase the effectiveness of aid.

#### **4.1 The Way in which Aid is provided**

This section deals with the ways which determine the provision of financial assistance to a particular country. Broadly there are two ways to determine the provision of aid. They are – first, by attaching conditions of economic and political reform with foreign aid; second, by complying the vested political and strategic interests of the aid providers. More often than not the strategic and political interests of the aid providers dominate the decision for aid provision, and they form the basis of the conditions that are tied to aid. There were instances when foreign aid continued to flow even when the conditions attached to the aid were violated.

The way in which aid is provided to the recipient countries has transformed since the end of World War II. Since 2000, the main theme for providing foreign aid is greater selectivity, i.e., aid should be provided to those countries where it can produce good results (Easterly 2003). It was found in a study that foreign aid has a positive impact on economic growth of recipient nations when it is coupled with good economic policies (Burnside and Dollar 2002). Since then all major aid provider countries and agencies started emphasising on good fiscal, monetary and trade policies in the recipient countries (Easterly 2003). World Bank (2002) argued that aid was rendered ineffective because of corruption, poor policies and bad governance. Hence, at least theoretically, there was a major emphasis on bringing on good reforms in the aid recipient countries to increase the effectiveness of foreign aid. This approach to foreign aid varied across aid through bilateral means and aid through multilateral institutions.

A major way in which the provision of aid was affected was conditionality. Loans and aid to the recipient countries often come with certain conditions. Easterly (2003) argues that the difference “between aid loans and aid grants is not very meaningful for countries with low income because the loans are heavily subsidised.” Hence loans and aid are used interchangeably in the literature on foreign aid. Aid when comes from developed democratic countries, is generally with some reform conditions. The Western aid providers expect the foreign aid to bring some transformation in the economies, politics, and societies of the aid recipient countries. Generally, the reform conditions that are attached with foreign aid include trade liberalisation including

promotion of international trade, non-interference by the governments in the price mechanism, democratic reforms, promoting private investment, and cutting down on government expenditure on subsidies, etc. It has been observed that aid was given to a country again even when the conditions with the previous aid remained unmet. One reason for this was the change of government in a country with high political instability, and the new government was given a new chance (Easterly 2003). However, in some cases, the aid was provided to the same government even when the conditions were violated. For example, the World Bank provided adjustment loans to Kenya under the same regime during the period of 1980-2000 (Easterly 2003). Considerable evidence has been found by Alesina and Dollar (2000) that aid is largely given because of political and strategic considerations and not because of meeting the conditions of aid or following good policies. They argue that the distribution of foreign aid is more explained by the colonial past of the aid recipient countries and the voting pattern at the UN. One of the most startling facts found by their study was that a non-democratic former colony received about double the amount of aid received by a democratic non-colony country. The same pattern holds true for other conditions that come with aid, i.e., the openness of economy to foreign trade and other policies. Speaking of bilateral, Alesina and Dollar (2000) discovered a particular pattern in the way the three big aid providers provide aid. These three aid providers are – U.S., Japan, and France. The U.S. provided more than one-third of its total financial assistance to Israel and Egypt. While France mainly donated to its former colonies, Japan's aid provision was highly related to the voting patterns of the developing countries (i.e., countries that voted in accordance with the liking of Japan received more financial assistance). Such a pattern in aid provision mostly serves strategic interests and loosely related to the alleviation of poverty, improvement of democracy, and better economic policies. However, after the strategic and political considerations of the aid providers are served, their aid is mostly targeted towards poverty, democratic reforms, and market liberalisation. Still, the bilateral provision of aid and the reasons behind it varies across aid providers.

Keeping the political and strategic consideration aside, as far as unconditional aid is concerned, Western countries are not in favour of it. Aid providers emphasise that aid must be based on strict conditions (Selbervik 1999). Recently, China had started providing financial aid to low-income countries, especially in the Pacific islands region, with virtually no political conditions attached to it (Zhang 2015). It has been referred

to as “no string attached” or “cheque-book diplomacy.” China has its strategic and political reasons behind providing such kind of aid. China’s different approach to aid programs to Pacific island nations “complicates the efforts of the Western countries to promote good governance and sustainable development”, as the Pacific region already faces many development and security challenges (Zhang 2015).

#### **4.2 Disproportionate benefits to the aid providers**

‘Aid for trade’ theory says that aid is provided to the low income countries to create an export market for goods produced in the aid provider countries. The aid is also intended to bring a change in the cultural taste of the people in the recipient countries to make it suitable for the goods produced in the aid provider countries. This eventually leads to large exports from the economies of the aid providers to the economies of the aid recipients. Other theory which claims that aid providers have received disproportionate benefits from the aid talks about political and strategic benefits that have accumulated to the aid providers. Hence there are two kinds of benefits that the aid provider countries are believed to have gained disproportionately by providing aid to the low-income countries – first, economic gains through increased exports to the aid recipient countries; second, political and strategic gains through support at the international forums, such as the United Nations. There is another view of ‘aid for trade’ theory which says that developing countries not only needed aid for technical assistance to trade but also to reduce transaction costs of several types and to reduce the social cost of trade liberalisation (Suwa-Eisenmann and Verdier 2007). This view of ‘aid for trade’ shows a different side of aid which is given to increase trade opportunities for the recipient countries. It considers the importance of trade and private flow of capital in the era of globalisation and therefore recommends more aid for creating better trade opportunities for the recipient countries. This includes promoting economic growth in the recipient economy to, as earlier mentioned, make them able to import foreign goods.

On the face of it, it might seem that providing aid to ensure either material or strategic gain for the aid providers is something bad or selfish. However, for realists, relative gains are more important than absolute gains (Powell 1991). Hence, the state actors must ensure that whatever venture they enter into it must be profitable for the state and its people in relative terms. The rationale for providing aid is already discussed in the second chapter of this study, where it was found that aid is mostly given because the

aid providers have some vested interests in the aid receivers. Then what necessitates the study of gains or disproportionate gains that may have accrued to the aid providers? It is through the lens of neo-imperialist policies that the present study looks at these disproportionate benefits. Nothing is problematic as long as both aid recipients and aid providers are mutually benefitting from the flow of financial resources across the globe. However, the penultimate objective of this study is to highlight the impact of the foreign aid process on the aid recipient countries. Whether the aid has done more harm than good for the aid receivers is the main concern of this study. Hence, there is a necessity to analyse the disproportionate benefits arising from the process of foreign aid. The fact that in 2016, only about 19.8% of foreign aid was provided to least developed countries of the world (Fourie 2018) explains how the strategic and political importance of the aid recipient countries plays a vital role in determining the amount of aid that they receive instead of their actual need for financial assistance.

There are two ways in which aid can lead to increased exports from the aid provider countries. They are discussed by Suwa-Eisenmann and Verdier (2007). The first way has a direct approach in which aid comes with certain conditions to bring forth some structural economic reforms. The second way has an indirect approach in which aid supplements domestic savings in an economy and increases investments. Increased investments lead to a higher rate of economic growth which increases the capacity of a country to pay for foreign goods. There is also a third way in which aid is directly saved and invested by the government of the recipient country. Such direct investment of foreign aid leads to an increase in the price of the investment goods which in turn crowds out private investment. All the above stated things present a rather negative picture of the foreign aid. The following sections discuss the benefits that aid providers gained from the aid recipients.

Even though the U.S. spends less than one percent of the federal budget on the foreign aid, it draws many direct and indirect benefits from the aid recipient countries (Cumbo 2017). Power Africa project of the USAID is one the ambitious aid programs which was launched in 2013. Power Africa intends to “add more than 30,000 megawatts (MW) of cleaner, more efficient electricity generation capacity and 60 million new home and business connections.” (USAID 2017). Project “Power Africa” is executed by the American Government with the help of the American private sector. The auxiliary services such as financing, insurance, technical support are also provided by the



American private sector. Transaction advisors and professionals from the energy and investment sectors work across sub-Saharan Africa to help in the implementation of the project. The project includes the generation of electricity using solar energy, wind energy, streams, lakes and natural gas, and investing in technologies to expand the power grid (USAID 2018). All these activities are set to greatly benefit the American companies and workers, as the United States has recently become a world leader in the natural gas production (Cumbo 2017). Energy sectors other than natural gas will also benefit American workers and companies. The blueprint of 'Power Africa' seems to benefit American people more than the Africans. Cumbo (2017) argues that the fact that Americans benefit from the American foreign aid is the mostly overlooked. The United States seems to be more interested in African countries because of the huge natural resources in these countries and because of the intention of political alliances with many of these countries. While this may be important for the U.S. foreign policy, it may not benefit the African people in the long run. Regarding the natural resources of the African countries, the White House issued a press release stating that legal and statutory system regarding governance of the natural resources are inadequate in many of the African countries and therefore, the U. S. Government should step in to govern these natural resources in a better way (Npanaggio 2013). It is also being said that the main motive behind the 'Power Africa' project is to support the renewable energy ventures that are having trouble in operating even in developed countries because of their high cost (Johnsen 2013). Thus it can be said that there are three major benefits that the United States is set to receive from 'Power Africa'. They are – jobs for American workers and profit for American companies, political and strategic support from African nations, and control over natural resources in the African countries. Former American President Obama called the 'Power Africa' project a win-win. He said, "it's a win for the United States because the investments made here, including in the cleaner energy, means more exports for the U.S. and jobs in the U.S." (Admin 2013).

Another foreign aid program of the U.S. government is the President's Emergency Plan for AIDS Relief (PEPFAR). The program was started in 2003 and provides over 14 million people with antiretroviral treatment (PEPFAR 2018). Although the program has benefitted millions of people, it also supports the economy of the United States by building robust exports markets for the American goods, particularly by promoting the

U.S. exports of pharmaceuticals (Cumbo 2017). Following words by the former administrator of the USAID (Atwood 1995) explain the benefits that the United States has received by years of providing of foreign aid –

“Most of the growth in U.S. exports is not coming from trade with our traditional partners, but from the explosive growth in American exports to the developing world and nations who are making the transition away from socialism toward free markets. Between 1990 and 1993, U.S. exports to developed countries grew by 6.2 percent. In contrast, during that same period, U.S. exports to developing countries grew by a remarkable 49.8 percent. This growth in trade to the developing world meant \$46 billion more in U.S. exports and 920,000 more jobs in the United States.

Importantly, developing countries are particularly good customers of the type of high-tech products which we lead the world in producing, such things as pollution control equipment, communications equipment and computers. Exports to countries in both Asia and Latin America are one of the primary reasons our unemployment rate in the United States is low, and our economy is still growing.

The incredible growth of American exports to these emerging economies is not the product of luck. Years of efforts through U.S. foreign assistance programs helped foster an enabling environment for American trade in these markets. Programs not only in economic growth, but in institution building, civil- society and the environment all boost American trade.”

The trend of increased American exports is still continuing with 44.6 percent of American exports going to developing countries in 2011 as opposed to 29.4 percent in 1985 (Cumbo 2017).

In 2015, Chinese president Xi Jinping made commitments to increase foreign aid to low income countries, which included “\$ 2 billion to the new South-South Cooperation Assistance Fund, debt forgiveness to least-developed countries, and \$100 million in military assistance to the African Union, as well as a 10-year, \$ 1 billion “peace and development” fund to support the United Nations (Sun 2015). Although this kind of generous foreign aid was appreciated by the United Nations, developed countries, and

the developing world alike, it was criticised heavily within Chinese society since China still had more than 82 million people living in poverty in 2014 (Iaccino 2014). The Chinese government has defended its foreign aid policy stating “political and economic benefits associated with the Chinese aid” while arguing that such “benefits” cannot be declared publicly because of “serious counter-effects” (Sun 2015).

There are other indirect or “soft” benefits that the aid providers gain by giving foreign aid. Such gains include increased regional influence, feeling of gratitude among the people of aid recipient countries, increased soft power. Providing foreign aid also changes the way in which a country is perceived internationally, i.e., foreign aid helps change international opinion about a country (Coughlan 2014).

As already mentioned in the previous chapter, Australia is a major aid provider for the Pacific region. Australia recognises that foreign aid helps develop export markets in the recipient countries by boosting economic growth. A study done by “The Australian National University (ANU) has found that every additional \$1 spent on Australian foreign aid in Asia has resulted in \$7.10 in Australian exports” (Caneva 2017). The study, first of its kind, compared export data and foreign aid levels between 1980-2013 (Cunningham 2017). The study is a confirmation that foreign aid is actually like an investment which generates huge economic returns for the aid providers. While it is true that the aid has reduced poverty to some extent, the kind of benefits the aid providers received from foreign aid still stands unparalleled. Australians accept this fact that the Australian aid is serving their national interests through expanding economies in their neighbourhood, “which then provides benefits to Australian exporters” and that the export numbers are “impressive” (Caneva 2017). When it comes to how much does the Australian government spend on foreign aid, it is just 0.22 percent of the Gross National Income (GNI) of Australia or just 22 cents in every \$100 (World Vision Australia 2015).

### **4.3 Economic and Political Dependency generated by Foreign Aid**

Foreign aid is supposed to improve the economic conditions of the recipients. But if over long periods of time, instead of making aid recipients self-sufficient foreign aid continues to be the major source of their income, then it is said to have created aid dependency. Whether intentionally or not, if aid as a long-term strategy “inhibits development, progress, or reform” it causes dependency (Stanford 2015). As already

mentioned earlier in this study, the Pacific island countries (PICs) are the most aid dependent countries in the world. Aid dependency for the PICs means that despite years of receiving aid the economic growth and development here has not created self-sufficiency regarding their income. Consequently, the PICs continue to rely on foreign aid for the major part of their expenditures. As was found in the previous chapter of this, if foreign aid stops unpredictably, it will have a grave impact on the lives of Pacific people. The same is true with most low-income countries. Aid in these countries provides many health, education, and sanitation facilities. Without aid, the levels of standard of living in the low-income countries will fall further. For Pacific islands, it has been argued that aid has failed to foster development in the region (Hughes 2003). However, in the case of Pacific islands, their attributes such as smallness, isolation, dispersed geography, lack of natural and human resources play a key role in determining their dependence on foreign aid (Gani 2006).

Food aid is particularly unpopular for creating aid dependency, as it “disincentivises local food production by reducing market demand” (Stanford 2015). Long term food aid also leads to agricultural stagnation (Shah 2007). In some countries, humanitarian aid has done more harm than good mainly because of its wrong timing, lack of pragmatic planning, and ignoring the long run effects of such kind of aid (Mikolajuk 2005). Other effects of faulty aid process include creating an economy of theft and corruption, ruining the traditional economy, depressing the local market by supplying food even in case of good agricultural production, thus devastating the local farmers and suppressing the future agricultural production (Mikolajuk 2017). These effects make the recipient countries completely dependent on aid for running their economies (Stent 1982). There is also an idea that foreign aid is a must if the low-income countries wish to reach the level of developed economies. Rudra (1970) argues against “the unavoidable necessity of aid for development” and to corroborate his argument Rudra gives examples of countries such as the former Soviet Union and the People’s Republic of China which have developed without any foreign aid. The obvious acceptance of aid as unavoidable for the development process makes the countries dependent on it and when aid flows stop such countries become helpless. Rudra cites the example of India and writes that India had to abandon economic planning for four years because of an unpredictable reduction in aid flows in 1965. Mentioning that “aid is partly an instrument of foreign policy and partly a product of the pursuit of enlightened self-

interest,” Rudra compares aid with an “arm in the hands of the Super Powers, by which pawns are moved across the chess-board of world politics in the Super Powers’ relentless pursuit of the objective of world domination” (Rudra 1970: 1344). Aid provided with such motives creates political dependency among the recipient countries, as they are obliged to act by the wishes of aid providers or the aid may get suspended whimsically. The voting pattern at the UN is also impacted by the dependency created by foreign aid. Pressure to vote in accordance with the liking of Super Powers was a prominent feature of the Cold War era and foreign aid served as a good tool to ensure complicit voting pattern. The more the dependence on the aid provider for trade, aid, or security, the more the susceptibility to pressure (Wittkopf 1973). In the post-Cold War era the United States provides more aid to those countries which favour the position of the U.S. in the international sphere and it also uses aid to “buy votes” at the United Nations General Assembly (UNGA) “in order to maximize the number of favourable votes” (Woo and Chung 2017).

Political dependency occurs when aid providers start interfering in the domestic politics by intervening directly in policy making and implementation of the recipient countries (Stanford 2015). As already mentioned, aid providers use foreign aid as a foreign policy instrument to serve their vested interests. Vested interests of the Western countries may not always align with the needs of the aid receivers, and often intervention based on such vested interests lead to destabilised political situations. Intervention by Western countries in the domestic political process of the recipient countries has shown to degrade the quality of governance, it also puts the legitimacy of the concerned government in jeopardy, and furthers delay of political reforms and development (Bruatigam 2000). This has been particularly visible in countries where the need for foreign aid arises because of political upheaval or civil unrest, such as in the Democratic Republic of Congo and Zimbabwe (Stanford 2015). When aid becomes a major feature of the recipient economy, political process, decision, planning, and other developmental processes become reliant on aid providers. Naturally, in such an aid dependent scenario political development in the recipient countries barely remains independent. The recipient economies look for the financial resources from foreign countries, and as has already been mentioned aid from Western countries is tied to some specific conditions which may not necessarily align with the domestic realities of the recipient countries. The aid providers may have a different agenda when they provide aid. Sometimes,

different aid providers have different and even contradicting agendas which further causes devastating results for the recipient country. For instance, the Syrian civil war which has ransacked Syria since 2011 is a classic example of contradicting agendas of different aid providers. Syrian government receives aid from Russia and the rebel groups from the United States (Pillar 2014). The result of differing ideologies between the United States and Russia has almost destroyed Syria.

#### **4.4 Aid Providing Agencies and Issues with them**

Aid is provided through various ways among which bilateral aid holds a prominent place in the history of foreign aid. A major part of the U.S. foreign aid is given through bilateral means. Starting from Marshall plan after the end of the World War II to rebuild western European countries, to present day aid provision to various countries in Asia, Africa and Latin America, USAID majorly provides aid through bilateral means. Australia provides aid in the Pacific region through bilateral means. China is infamous for providing aid bilaterally in a very opaque manner. China has been very successful in using foreign aid as an instrument in building its influence in many regions of the world. One of the reasons for gaining such influence is to gather support for its One Belt One Road project which intends to connect most of the countries of Asia, Europe, and Africa. As far as the Pacific region is concerned most aid comes to the Pacific island countries (PICs) bilaterally. Major aid providers for PICs include Australia, the United States, New Zealand, Japan, and China (Zhang 2015).

Another way of providing aid is through multilateral institutions. Although there are many worldwide and regional multilateral development aid agencies, this study concerns the major multilateral aid agencies such as the World Bank, the International Monetary Fund (IMF), and some agencies of the United Nations. Although the IMF doesn't categorise itself as an aid agency, the loans that it has forgiven for low-income countries, especially in Africa, give it an appearance of an aid agency (Easterly 2003). This section discusses some common issues with the aid agencies. In the end, it also throws light upon some peculiar characteristics of individual aid agencies which impact the aid effectiveness in the recipient economies.

Some of the major issues with aid agencies include – misplaced priorities, selectivity, conditionality, evaluation (Easterly 2003), poor coordination, food aid. These issues are discussed below:

#### **4.4.1 Misplaced Priorities**

Aid agencies were formed to provide financial assistance to the low-income countries to help them reduce the levels of poverty and raise the standards of living of their people. Aid institutions are found on the believe that “aid can buy growth” and this has been an “ongoing mission the aid bureaucracies” (Easterly 2003). However, it seems that aid agencies are more interested in the amount that they disperse as an aid rather than actual development that happens in the recipient economies. “Quantitative measure” of aid seems to have “gained its supremacy by default” (Tendler 1975). The fact that the Pacific island countries (PICs) receive the highest per capita aid in the world and yet their economic growth is poor shows that the aid providers focus more on the amount of aid rather than the effectiveness of aid. Often political and strategic interests of the Super Powers which dominate the aid agencies guide the provision of aid instead of the real need of the low-incoming countries, as Easterly (2007) argues that “there are also powerful political and organisational incentives that drive aid behaviour.” How the vested interests of the aid providers dominate the flow of financial assistance to the recipient countries is already discussed in the section ‘Disproportionate Benefits to the Aid Providers.’

#### **4.4.2 Selectivity**

Selectivity implies choosing which countries to provide with aid. Burnside and Dollar (2000) argued that when foreign aid is combined with good economic policies and governance in the recipient countries, it increases the effectiveness of aid. Thus since then, it has become a major theme in the area of foreign aid that “aid should be directed to where it can do good” (Easterly 2003). Nevertheless, there are various cases where aid provided by the aid agencies failed, i.e., instead of doing good it ended up making things worse for the recipient people. For example, aid in Afghanistan has failed to improve the situation of the war-torn country, yet aid continues to flow in billions there (Farzan and Seerat 2016). Aid agencies need to pay more attention by being more selective in the time and place for providing aid. For this, the agencies need to evaluate the aid effectiveness and make sure that the conditions with the aid are met. However, evaluation of the aid process and its effectiveness is another area where aid agencies do not pay enough attention. Observers of aid agencies agree to the fact that aid agencies

do not put much effort “either to insuring that loan conditions were actually observed or to later evaluation of loan effectiveness” (Easterly 2003).

#### **4.4.3 Evaluation and Conditionality**

As has already been discussed, aid comes with a certain agenda that the aid providers have in their minds. Economic and political reforms in the recipient countries are the main conditions that come tied to foreign aid. However, as mentioned earlier, in many cases aid was provided even when the conditions for the earlier aid were violated. Different reasons which explain such aid provision have already been discussed earlier in this chapter. In any case, such laxity in the process of aid flows reduces the effectiveness of foreign aid. Stating that foreign aid presents more challenges to the recipient countries Keo (2013) argues that “foreign aid has routinely failed to benefit the foreign poor... dotted the countryside with a growing phalanx of corrupt, meddling, and overpaid bureaucrats.” Evaluation of the aid process doesn’t cost much, yet aid agencies have not taken the efforts to evaluate how aid fares in the recipient economies; this job is mostly left for the independent researchers. Easterly (2003) notes the review mechanism of the World Bank:

“World Bank reviews only 5 percent of its loans after three to ten years following the last disbursement for the development impact. Even these evaluations are based in part on self-evaluation by the staff in charge of the original projects and their implementing agencies, are done on a paltry budget, and are often sanitized as they are reviewed by the management. The World Bank has done surveys of borrowing governments since the mid-1990s on how the bank has performed from the governments’ point of view, but the bank has declined to make these surveys public, and there seems to be a little mechanism for having managers learn from them.”

It is not the World Bank only that shows a lackadaisical attitude towards the review mechanism, U.N. agencies also do not have a comprehensive review system (Easterly 2003). The evaluation and review mechanism is conspicuously missing from the process of development aid flows. This is the main reason behind the low effectiveness of foreign aid despite large amounts of money being spent in the name of developmental projects.



#### **4.4.4 Poor Coordination among Donors**

Recipient countries receive aid from many aid providers including aid agencies. Most of the times it results in overlapping of efforts due to “their failure to coordinate their efforts with each other” (Easterly 2007). The problem of poor coordination among aid providers has been stressed by almost all the observers of aid agencies. The IMF and World Bank have time and again mentioned the problem of aid coordination as a reason behind poor aid effectiveness (World Bank 2005). Paris Declaration for Aid Effectiveness (2005) and Accra Agenda for Action (2008) are very important steps in the direction of improving coordination among aid providers and increasing the effectiveness of aid. There are other important steps taken by the international community to improve donor coordination and improve aid effectiveness. They include several policy documents by the European Union (EU) such as Consensus on Development (2006), the Code of Conduct on Division of Labour (2007), and the Operational Framework on Aid Effectiveness (2009) based on the international aid effectiveness agenda (Bourguignon and Platteau 2015).

#### **4.4.5 Food Aid**

Food aid has been much criticised by the scholar of international aid for impacting the economies of the recipient countries negatively and ultimately creating a cycle of aid dependence. Providing food aid affects the agriculture policy of recipient countries. Food aid at the wrong time affects domestic food price and causes loss to the local people engaged in food production (Mikolajuk 2005). In the long run, this takes away all the incentives for engaging in food production and people move away from agriculture to other sectors. Thus, the recipient economy becomes dependent on foreign food aid. Easterly (2007) recommends that it would be better to give cash grants to people to purchase food from local markets instead of supplying foreign food to them. Cash grants to the people would increase their purchasing power, and it would create demand for food in the local market which would also increase the incentives for local people who are engaged in food production, thus benefitting both farmers and consumers. The IMF and World Bank have criticised food aid as having a dubious value and that it is highly inflexible to be able to meet the actual needs of the people of aid recipient countries (IMF 2006).

#### **4.5 Recommendations to Improve Aid Agencies**

Aid is meant to improve the lives of the recipient people. It is supposed to be directed to reduce the levels of poverty, raise the standards of living in low-income countries by investing in basic facilities such as education, health, and sanitation. It is also supposed to improve the source of income for the local people to make them self-sufficient. Aid agencies have spent large amounts of money in the low-income countries to improve the socio-economic situations of the developing world. However, due to several reasons, some of which are discussed above, economic growth in the recipient economies continues to be slow and unsatisfactory. As mentioned earlier, there are various issues with the aid agencies which hamper the effectiveness of foreign aid. This section discusses some recommendations to improve the process the process of aid flows to improve aid effectiveness.

Much has already been written on what needs to be done with the aid agencies to improve aid effectiveness. Even the aid agencies are aware of their faults and have made several recommendations for themselves to improve aid provision. Nevertheless, there is “weak evidence of progress due to learning or changes in political support for poverty alleviation” (Easterly 2007). After years of analysis and corrections aid agencies have made some improvements which are analysed by Easterly:

“The positive results are an increased sensitivity to per capita income of recipient (although it happened long ago in the 1970s), a decline in aid tying, and decrease in food aid as a share of total aid. Most of the other evidence – increasing donor fragmentation, unchanged emphasis on technical assistance, little or no sign of increased selectivity with respect to policies and institutions, the adjustment lending debt relief imbroglio – suggests an unchanged status quo, lack of response to new knowledge, and repetition of past mistakes.”

Some of the recommendations include the following – first, improving the selectivity criteria in deciding which country to provide aid. It is important to anticipate how the aid would do in a particular country. For instance, if a country is going through a civil war, it is highly likely that the aid provided may get diverted to cause further devastation in the already war-ravaged country. Second, the evaluation of aid agencies is a very critical area where only a little progress has been made. Independent review of aid institutions would help them find the areas where they could improve. Evaluation of

the aid process to a particular country is also important to see whether aid has improved the lives of the people or not. One way to do this is to see if the previous conditions tied to the aid were met or not. Another way could be an independent review of the aid performance and its impact on the lives of recipient people. First and foremost, the conditions for providing should not be straightjacketed; they should be customised according to the need of the recipient countries. Instead of being an extension of the vested interests of the Super Powers, the conditions must serve the well-being of people to make them independent of aid ultimately.

Third, the priority of the aid agencies should not be to spend more amount of money as foreign aid but to ensure that whatever amount flows as foreign assistance goes at the right place and does what it is meant to do. The quantity of foreign aid may not be as important as the quality of change that it brings in the lives of people. However, the amount that flows as foreign is also important, as many of the low-income countries in the Pacific region and Africa are largely dependent on aid for even basic civic facilities. Fourth, food aid should be reduced to the minimum level and should be provided only in emergency situations such as in the case of natural disasters such as floods or droughts, etc. The kind of economic dependence that food aid creates is unparalleled. Therefore, it is imperative to ensure that the local economy is not hurt by foreign aid. The whole point of aid is to assist the receiving people to improve their lives and make independent. However, as mentioned earlier, food assistance at the wrong time and long term food aid disincentivise local food production by adversely affecting the prices of local food products.

#### **4.6 Conclusion**

This chapter leads to a conclusion that the vested interests of the aid providers have gained supremacy over the actual need of recipient countries. The conditions that are tied to foreign aid are mainly meant to serve the political and strategic interests of the aid providers that dominate the aid agencies. Instead of paying attention to the actual needs of the low-income countries major aid providers have chosen other criteria to provide financial assistance such as the colonial past, favours in UN voting. Other economic and strategic objectives have also dominated the flow of financial resources, for instance, China's Belt and Road Initiative (BRI) has determined which countries are going to receive financial assistance from China.

Aid providers have always used foreign aid as an instrument of their foreign policy. Super Powers have continued to provide foreign aid to the low-income countries. The amount of flow of financial resources as foreign aid has increased substantially over the past several decades. One of the reasons for large increases in foreign aid is that aid providers benefit more from foreign aid than aid recipients. Foreign aid boosts the economic growth of the recipient economies which ultimately increases their import capacity. This leads to increased exports, more jobs, and more profits for the economies of the aid providers. The United States has benefitted immensely from foreign aid and continues to do so. American developmental assistance programs like project 'Power Africa' and PEPFAR, have benefitted the economy of United States several times more than it has benefitted the so-called "beneficiaries" of these programs in the recipient countries.

Foreign aid in Pacific island countries has not been able to generate sufficient economic growth and development. As a result, they continue to rely heavily on foreign aid for even basic civic facilities. The inevitable need for foreign aid for developing creates dependency among the developing countries. They must explore the opportunities to develop with foreign financial assistance or with the minimum amount of foreign aid. The unpredictable flow of foreign aid leads to grievous economic shocks for the recipient countries, as they continue to rely upon foreign aid for their expenditures. Intervention by foreign aid providers in the political development of the recipient countries creates political dependence. The vested interests of the aid providers may not align with the political needs of the recipient countries, and this may lead to catastrophic clashes in the recipient countries. Dependence on foreign aid for political developments also delays political growth in the recipient countries.

Aid agencies continue to remain largely nonchalant about the improvement of the process of flow of foreign aid. There are many issues that hamper the effectiveness of foreign aid. They include poor selectivity criteria, no or poor evaluation of conditions attached with the previous aid, providing aid even when conditions were violated, poor and no independent review mechanism of the aid agencies, and providing food aid.

Foreign aid is a generous way of assisting low-income countries in coming out of the vicious circle of poverty. However, when handled carelessly, even this instrument can cause much harm than benefits. Foreign aid needs to be provided to serve the needs of

the recipient economies to make them independent of foreign aid ultimately. As the words of Ronald Reagan tell us at the outset of this chapter, success of foreign aid can only be measured by how many countries have moved out of it and have become self-sufficient. Aid agencies and Super Powers would need to pay more attention towards this objective.

\*\*\*\*\*

## Chapter 5

### Conclusion: Foreign Aid a Neo-Imperialist Tool?

---

*“When a bird gets free, it doesn’t go back for remnants left on the bottom of the cage.”*

**Rumi, “What’s Not Here”**

Birds are meant to fly free in the open sky. Birds do not belong in a cage, even if the cage is made of gold. Cage is symbolic of captivity and dependence. In the international system, like birds, state-nations are meant to be free and autonomous. Everything they essentially aspire to be can be summarised in one word, i.e., sovereign. However, unequal levels of development and distribution of wealth among nations provide scope for a different kind of interaction among the state actors. “Concern” for each other’s prosperity impels the more affluent nations to help the less affluent ones. Foreign aid, supposedly, was a creation of this concern for each other’s well-being. This study intended to look into this idea of foreign aid. It intended to analyse the process of aid flow to understand its impact on both the aid providers as well as aid receivers.

History is a wonderful tool that can be used to craft the present. As it is said, “Those who don’t know history are destined to repeat it.” However, it is also said, “history doesn’t repeat itself, but it often rhymes.” History of Colonialism and the two World Wars are a blot on the history of humanity. Now that colonialism rhymes with neo-colonialism is not purely coincidental. Rage of attaining economic and military superiority has not vanished from the minds of state actors. Liberals may like to differ here. Control over natural resources and access to foreign export destinations are of acute importance for economic prosperity. During the time of colonialism, former colonies served both these purposes effectively. They were a good source of natural resources required for industrial supremacy. At the same time, they continued to serve as an export destination for goods produced by the former colonial master countries. The colonies were left to survive on the remnants of the colonial masters. But when the colonies gained freedom, like Rumi’s free bird, they were not to go back for the

remnants left on the cage of imperialism. Former colonies were now free and sovereign. The control over natural resources and their domestic markets were now in their own hands, and these newly independent countries could now decide for their self-interests. In any case, the old colonial masters still needed access to natural resources and markets of their former colonies. The newly independent countries needed finances to develop themselves. Foreign aid from the former colonial masters was provided to develop these low-income countries. But such foreign aid came with certain conditions attached. As found in Chapter 2 of this study, the conditions were meant to open up the economies of the recipient countries to allow access to foreign goods. After the end of the World War II, a new phenomenon scared the Western countries. That phenomenon was the spread of Communism. Foreign aid was used as an instrument by the Western world to contain communism in the newly independent less affluent countries. Formation of the United Nations in 1945 was a landmark for the international system. As this study found, the Super Powers used foreign aid to influence the voting pattern in the United Nations General Assembly (UNGA).

Colonialism may not repeat itself, but it rhymes with neo-colonialism. Neo-imperialism may appear like a different song, but it is set to the tune of imperialism only. As found in this study, Western countries have used international aid as an instrument to implement their neo-imperialist policies. These policies were designed to serve the economic, strategic, and political interests of the aid providers. Coincidentally, most of the large aid providers are former colonial masters. As found in Chapter 4, aid increased the capacity of the recipient countries to absorb exports from the aid providers. The aid programs carried out by the United States in African countries benefit Americans more than the African people. Such aid programs have increased American investments and profits and created more jobs for Americans. The conditions that are tied to such aid programs allow the U.S. to gain control over the natural resources of the African countries. Besides, there are political and strategic advantages that the U.S. gains by entering into agreements with the recipient countries. Chapter 4 also tells that Australia has also benefitted many times over from its aid programs, as the aid provided by it increased its exports to the recipient countries by several times.

No doubt that foreign aid is used by the aid providers to serve their interests by influencing the course of events in the international system, as was found in Chapter 2, still many countries need foreign financial assistance to raise their economic

development. Chapter 3 discussed the economic and political realities of the Pacific Island countries (PICs). Poor availability of natural resources, low population, dispersed island territories over a vast ocean, and excessive vulnerability to natural disasters are the main reasons behind poor economic development in the Pacific region. In such a scenario, foreign aid becomes a necessity for the Pacific island countries (PICs). Pacific people depend on foreign aid for various basic civic amenities. Chapter 3 concludes that any sudden or unpredictable reduction in the amount of aid flow will affect the lives of Pacific people severely. It also mentions that because of their low production base the PICs will continue to be dependent on foreign aid for their economic development. However, despite several decades of foreign aid, economic growth in the Pacific region has been unsatisfactory, and foreign aid has been unsuccessful in making the Island countries self-dependent. Because of their poor economic status and small sizes, the Pacific island nations also do not enjoy enough political leverage while negotiating with other bigger countries. As Chapter 4 finds, Pacific Islands Forum (PIF) serves as an important medium for the PICs to unite their voices and efforts to improve their economic and political status collectively. They have taken several steps to promote development and increase the effectiveness of foreign aid which include signing Auckland Declaration in 2004, forming a Forum Compact on Strengthening Development Coordination in 2009, signing Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008), etc.

Reasons for providing foreign aid have evolved. Chapter 2 elaborates such reasons and rationale behind them. Apart from reasons already mentioned in the previous paragraphs, foreign aid is also given for security reasons, i.e., to curb terrorism and recently environmental aid is also being popularised among the countries that are most vulnerable to the impacts of climate change. Chapter 4 concludes that aid agencies were lackadaisical about the effectiveness of aid. Even though the cost of review mechanism was very low, there was barely any effort on the part of aid agencies to take up any review system. Aid was provided to countries even when previous conditions with the aid were not met. The selectivity criteria for providing aid is poor, which creates more harm than good for the aid recipients. Amount of aid appears to be more important for aid agencies than the impact it creates on the lives of the recipients. Poor coordination among donors and fragmentation of aid are other important reasons for the poor effectiveness of aid. Chapter 4 also discussed how different countries provide aid in



different manners. For example, France provides more aid to its former colonies; Japan provides aid to those countries that voted in accordance with the liking of Japan, the U.S. gives a large part of its aid to Israel and Japan. China provides aid with no conditions attached and in an opaque manner. The main finding of Chapter 4 is that aid has benefitted aid providers more than the aid receivers. The benefits were of all kinds – economic, political, and strategic. ‘Aid for trade’ theory was validated in this study, where aid increased trading opportunities for both aid recipients and aid providers, with aid providers exporting more than the aid recipients.

Analysing aid dependency was a major theme of this study. Chapter 3 and 4 find out that most Pacific island nations are heavily dependent on foreign aid. Food aid is another kind of aid which is found to devastate local food production and furthers aid dependence. Food from Western countries has changed the food habits and lifestyles of the Pacific people, particularly in the Federated States of Micronesia and Nauru, which has severely deteriorated their health. Some countries even depend on foreign aid for their political development; this creates political dependency.

The study was based on two hypotheses. The first hypothesis was that the Pacific island nations are being implicated at an individual level by the aid providers to project their interests, and Pacific Islands Forum (PIF) serves as a strong medium to make better negotiations with the aid providers. As already mentioned, the PICs are small in size and economically weak. Due to their small size and weak production base, it becomes difficult for the PICs to negotiate with other larger countries bilaterally. Individually they may not have much political leverage at bilateral levels. The PIF has served as a potentially strong stage for the small PICs to raise their voice together for better negotiations with larger countries. As mentioned earlier the PIF members have taken many steps to promote the development of the Pacific region and increase the effectiveness of aid.

The second hypothesis was that foreign aid has disproportionately benefitted the aid providers by making the Pacific island nations subject to the exports from the aid providers. The study used the deductive method to validate this hypothesis. As mentioned earlier, the United States has benefitted more by providing foreign aid than the aid recipients. Similarly, Australia has increased its exports by providing aid to the low-income countries. Thus both the hypotheses stand validated.

Even after several years of receiving aid most ‘developing countries’ are still ‘developing.’ This is especially true in case of the PICs which have not shown a strong record of economic growth even after receiving the highest per capita aid in the world. It is important that the aid providers and aid receivers equally pay attention to this fact. The political will of the aid providers is very important to transform the condition of “Pacific Paradox.” Foreign aid must ‘aid’ the recipient countries in coming out the low levels of economic development rather than trapping them in the vicious cycle of aid dependence. Several recommendations have been made in this study to improve the effectiveness of aid to make the recipient countries independent of aid. Most important of them includes the following: Improving the selectivity criteria for aid provision, improved and independent review mechanism of the aid process and aid agencies, and better economic and political reforms in the recipient countries. The economic and political reforms should be customised to serve the well-being of the people of the aid recipient countries rather than serving the neo-imperialist interests of the Super Powers. What the low-income countries need is support and care from the more affluent countries and not some forceful invasion in the name of promoting international peace. Emerging economies present a wonderful mix of attributes regarding people, ethnicity, language, religion, culture, food, tradition, economy, and politics. They have their peculiar problems which impede their economic and social upliftment. To solve such problems would require a highly specialised and customised set of solutions, where one size cannot fit all. Such a solution would require a contribution from all in the international system, particularly from the Super Powers, which have a major influence on the international agencies. Only then the birds of the aid recipient countries can be free in reality from the strategic remnants left on the bottom of the neo-imperialist cage.

\*\*\*\*\*

## References

### Chapter 1

- Baker, Brian I. (2014), "Foreign aid: history, theories, and facts", *Monthly Labor Review*, URL: <http://www.jstor.org/stable/monthlylaborrev.2014.01.002>.
- Cassels, Susan (2006), *Overweight in the Pacific: links between foreign dependence, global food trade, and obesity in the Federated States of Micronesia*, 11 July, [Online: web] Accessed October 3, 2017 URL: <https://globalizationandhealth.biomedcentral.com/articles/10.1186/1744-8603-2-10>.
- CHESHER (2013), *Dependency in the Pacific Islands*, [Online: web] Accessed September 15, 2017 URL: <http://www.tellusconsultants.com/dependen.html>.
- Cleveland, H. VanBuren (1957), "Purposes of International Aid Programs" *The Scientific Monthly*, August: 77-81, [Online: web] Accessed September 11, 2017 URL: <http://www.jstor.org/stable/22192>.
- Dornan, Matthew, Jonathan Pryke (2017), *Foreign aid to the Pacific: an overview*, August 10, [Online: web] Accessed September 02, 2017 URL: <http://devpolicy.org/foreign-aid-to-the-pacific-an-overview/>.
- Dudley, Leonard and Claude Montmarquette (1976), "A Model of the Supply of Bilateral Foreign Aid", *The American Economic Review*, 66 (1): 132-142, URL: <http://www.jstor.org/stable/1804951>.
- Easterly, William (2003), "Can Foreign Aid Buy Growth?", *The Journal of Economic Perspectives* (American Economic Association), 17 (3): 23-48, URL: <https://www.jstor.org/stable/3216821>.
- Easterly, William (2007), "Are Aid Agencies Improving?", *Economic Policy*, 22 (52): 633+635-678, URL: <http://www.jstor.org/stable/4502212>.
- Gani, Azmat (2006), "Pacific Island Countries High Per Capita Foreign Aid Requirement", *Journal of International Development*, 18 285-292, doi:10.1002/jid.1217.
- Hauger, J. Scott (2015), "Climate Change Challenges to Security in the Pacific Islands Region and Opportunities for Cooperation to Manage the Threat", Chap. 11 in *Regionalism, Security & Cooperation in Oceania*, edited by Rouben Azizian and Carleton Cramer, 147-160, Honolulu: The Daniel K. Inouye, Asia Pacific Center for Security Studies.
- Helble, Matthias, Catherine L. Mann and John S. Wilson (2012), "Aid-for-trade facilitation", *Review of World Economics* (Springer), 148 (2): 357-376, URL: <http://www.jstor.org/stable/41485799>.
- Herr, R. A. (2015), "Regional Security Architecture in the Pacific Islands Region: Rummaging through the Blueprints", Chap. 1 in *Regionalism, Security &*

- Cooperation in Oceania*, edited by Rouben Azizian and Carleton Cramer, 17-31, Honolulu: The Daniel K. Inouye, Asia Pacific Center for Security Studies.
- Hoey, Jane M. (1960), "Foundations of International Aid", *The Annals of the American Academy of Political and Social Science*, Vol. 329, *International Co-Operation for Social Welfare-A New Reality*, 137-143.
- Jones, Jenny Hayward (2015), "Australia and Security in the Pacific Islands Region", Chap. 5 in *Regionalism, Security & Cooperation in Oceania*, edited by Rouben Azizian and Carleton Cramer, 67-78, Honolulu: The Daniel K. Inouye, Asia Pacific Center for Security Studies.
- Kaul, Man Mohini (1993), *Pearls in the Ocean*, New Delhi: UBS Publishers' Distributors Ltd.
- Kaushik (2015), *Nauru: An Island Country Destroyed by Phosphate Mining*, [Online: web] Accessed October 3, 2017 URL: <http://www.amusingplanet.com/2015/06/nauru-island-country-destroyed-by.html>.
- Knapman, Bruce (1986), "Aid and the Dependent Development of Pacific Island States", *The Journal of Pacific History* (Taylor & Francis, Ltd.), 21 (3): 139-152, URL: <http://www.jstor.org/stable/25168901>.
- Krueger, Anne O. (1986), "Aid in the Development Process", *The World Bank Research Observer* (Oxford University Press), 1 (1): 57-78, URL: <http://www.jstor.org/stable/3986308>.
- Mikolajuk, Christine (2005), "Thanks, But No Thanks: The Other Face of International Humanitarian Aid", *Harvard International Review*, 26 (4): 32-35, URL: <http://www.jstor.org/stable/42762997>.
- O'Hanlon, Carol Graham and Michael (1997), "Making Foreign Aid Work", *Foreign Affairs* (Council of Foreign Relations), 76 (4): 96-104.
- Peebles, Dave (2005a), "Australia and regional order", Chap. 3 in *Pacific Regional Order*, 44-57, ANU Press, URL: <http://www.jstor.org/stable/j.ctt2jbk4c.10>.
- Peebles, Dave (2005b), "Challenges to regional order", Chap. 2 in *Pacific Regional Order*, 13-43, ANU Press, URL: <http://www.jstor.org/stable/j.ctt2jbk4c.9>.
- Poirine, Bernard (1991), "A Theory of Aid as Trade with Special Reference to Small Islands", *Economic Development and Cultural Change* (The University of Chicago Press), 47 (4): 831-852, URL: <http://www.jstor.org/stable/10.1086/452434>.
- Pryke, Jonathan (2013), *Rising aid dependency in the Pacific*, 2013 September, [Online: web] Accessed September 04, 2017, URL: <http://devpolicy.org/rising-aid-dependency-in-the-pacific-20130917/>.
- Rudra, Ashok (1970), "New Urgency about Aid", *Economic and Political Weekly*, 5 (32): 1341+1343-1345, URL: <http://www.jstor.org/stable/4360302>.

- Sato, Yoichiro (2015), "Managing Maritime Resources in the Pacific - With a Focus on Tongan EEZ Management", Chap. 10 in *Regionalism, Security & Cooperation in Oceania*, edited by Rouben Azizian and Carleton Cramer, 135-146, Honolulu: The Daniel K. Inouye, Asia Pacific Center for Security Studies.
- Singer, H. W. (1970), "Some Problems of International Aid", *Journal of World Trade*, 4 (2): 347-361.
- SJ., Francis X. Hezel (2012), "Pacific Island Countries How viable are their economies?", *Pacific Islands Policy* 7, Honolulu: East-West Center, URL: [http://hl-128-171-57-22.library.manoa.hawaii.edu/bitstream/10125/22221/1/pip007\\_0.pdf](http://hl-128-171-57-22.library.manoa.hawaii.edu/bitstream/10125/22221/1/pip007_0.pdf).
- Tumbarello, Patrizia, Ezequiel Cabezon, and Yiqun Wu (2013), "Are the Asia and Pacific Small States Different from Other Small States?" *IMF Working Paper*, International Monetary Fund, May.
- Tyson, Jeff (2015), *Trump on foreign aid*, September 16, [Online: web] Accessed July 13, 2018, URL: <https://www.devex.com/news/trump-on-foreign-aid-86916>.
- Valerio, Anna Patricia (2014), *Which countries are the most dependent on ODA?* 25 July, [Online: web] Accessed September 02, 2017, URL: <https://www.devex.com/news/which-countries-are-the-most-dependent-on-oda-83980>.
- Verdier, Thierry, and Akiko Suwa-Eisenmann (2007), "Aid and Trade", *Oxford Review of Economic Policy*, 23 (3): 481-507, URL: <http://www.jstor.org/stable/23606701>.
- Williams, David (2013), "The History of International Development Aid", In *Handbook of Global Economic Governance*, by C. Weaver M. Moschella, London: Routledge, Accessed August 12, 2017, URL: <https://qmro.qmul.ac.uk/xmlui/bitstream/handle/123456789/8063/WILLIAMS%20History%20of%20International%20Development%20Aid%202013.pdf?sequence=2>.
- Wilson, Catherine (2014), *Pacific Nations Need Help Away From Aid*, January 29, [Online: web] Accessed September 4, 2017, URL: <http://www.ipsnews.net/2014/01/pacific-nations-need-help-away-aid/>.
- Wittkopf, Eugene R. (1973), "Foreign Aid and United Nations Votes: A Comparative Study", *The American Political Science Review*, 67 (3): 868-888, Accessed July 07, 2018, URL: <http://www.jstor.org/stable/1958630>.
- World Bank (2017), *Where We Work / Pacific Islands*, 10 April, [Online: web] Accessed September 03, 2017, URL: <http://www.worldbank.org/en/country/pacificislands/overview>.
- Wyeth, Grant (2016), *From Phosphate Mining to Detention Centers: Nauru's Destructive Fixes*, October 18, [Online: web] Accessed October 3, 2017, URL:

<https://thediplomat.com/2016/10/from-phosphate-mining-to-detention-centers-naurus-destructive-fixes/>.

Zhang, Jian (2015), "China's role in the Pacific Islands Region", Chap. 3 in *Regionalism, Security & Cooperation in Oceania*, edited by Rouben Azizian and Carleton Cramer, 43-56, Honolulu: The Daniel K. Inouye, Asia Pacific Center for Security Studies.

## Chapter 2

2018. *Economic Survey 2017-18*. Government Document, Ministry of Finance, Government of India.

Amadeo, Kimberly. 2018. *The U.S. Trade Deficit and How It Hurts the Economy*. March 05. Accessed March 12, 2018. <https://www.thebalance.com/u-s-trade-deficit-causes-effects-trade-partners-3306276>.

Baker, Brian I. 2014. "Foreign aid: history, theories, and facts." *Monthly Labor Review*. <http://www.jstor.org/stable/monthlylaborrev.2014.01.002>.

Cleveland, H. VanBuren. 1957. "Purposes of International Aid Programs." *The Scientific Monthly*, August: 77-81. Accessed September 11, 2017. <http://www.jstor.org/stable/22192>.

Chand, Satish. 2001. "Managing natural Resources in the Pacific Islands." *International and Development Economics Working Paper 01-6*. Asia Pacific School of Economics and Government THE AUSTRALIAN NATIONAL UNIVERSITY.

Clifford, I. Little and J. 1965. *International Aid: a discussion of the flow of resources from rich to poor countries*. London: London: Allen and Unwin.

Connell, John. 1991. "Island Microstates: The Mirage of Development." *The Contemporary Pacific* (University of Hawai'i Press) 3 (2). Accessed March 20, 2018. <http://www.jstor.org/stable/23699930>.

Correggia, Rohini Hensman and Marinella. 2005. "US Dollar Hegemony: The Soft Underbelly of Empire." *Economic and Political Weekly*, March 19-25: 1091+1093-1095. Accessed March 12, 2018. <http://www.jstor.org/stable/4416354>.

Driscoll, David D. 1996. *The IMF and the World Bank*. Accessed January 31, 2018. <https://www.imf.org/external/pubs/ft/exrp/differ/differ.htm>.

Dudley, Leonard and ClaudeMontmarquette. 1976. "A Model of the Supply of Bilateral Foreign Aid." *The American Economic Review* 66 (1): 132-142. <http://www.jstor.org/stable/1804951>.

Erik Lundsgaarde, Christian Breunig and Aseem Prakash. 2007. "Trade Versus Aid: Donor Generosity in an Era of Globalization." *Policy Sciences* (Springer) 40 (2): 157-179. <http://www.jstor.org/stable/25474327>.

- Hoey, Jane M. 1960. "Foundations of International Aid." *The Annals of the American Academy of Political and Social Science, Vol. 329, International Co-Operation for Social Welfare-A New Reality* 137-143.
- IDA. 2018. *History*. Accessed January 28, 2018. <http://ida.worldbank.org/about/history>.
- ILO. n.d. *Youth employment policy in Pacific island countries*. International Labour Organization. Accessed March 21, 2018. <http://www.ilo.org/suva/areas-of-work/youth-emp-policy/lang--en/index.htm>.
- Louis, Federal Reserve Bank of St. 2007. *Foreign Aid: Who Benefits?* November 1. Accessed April 05, 2018. <https://www.stlouisfed.org/News-Releases/2007/11/01/Foreign-Aid-Who-Benefits>.
- OECD. 1972. *Official development assistance – definition and coverage*. Accessed February 13, 2018, <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>.
- Oxfam. 2017. *Killer facts: poverty in the Pacific*. Accessed March 27, 2018. <https://www.oxfam.org.nz/what-we-do/issues/millennium-development-goals/killer-facts-pacific-poverty>.
- Oxfam. 2017. *Poverty in the Pacific*. Accessed March 21, 2018. <https://www.oxfam.org.nz/what-we-do/where-we-work/poverty-in-the-pacific>.
- Phillips, Keri. 2013. *The History of Foreign Aid*. December 17. Accessed February 01, 2018. <https://reliefweb.int/report/world/history-foreign-aid>.
- Project, Bretton Woods. 2005. *What are the Bretton Woods Institutions?* August 23. Accessed January 30, 2018. [www.brettonwoodsproject.org/2005/08/art-320747/](http://www.brettonwoodsproject.org/2005/08/art-320747/).
- Pryke, Matthew Dornan and Jonathan. 2017. "Foreign Aid to the Pacific: Trends and Developments in the Twenty-First Century." *Asia & the Pacific Policy Studies* (John Wiley & Sons Australia, Ltd (The Australian National University)) 4 (3): 386-404. Accessed March 27, 2018. doi:10.1002/app5.185.
- Simon Feeny, Sasi Iamsiraroj and Mark McGillivray,. 2014. "Growth and Foreign Direct Investment in the Pacific Island Countries." *Economic Modelling* 332-339.
- Society, National Geographic. 2018. *Australia and Oceania: Resources*. Accessed March 21, 2018. <https://www.nationalgeographic.org/encyclopedia/oceania-resources/>.
- Spiro, David E. 1999. *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*. Cornell University Press.

- Statistics, U.S. Bureau of Labour. 2018. *Manufacturing Sector: Real Output [OUTMS]*. March 07. Accessed March 11, 2018. <https://fred.stlouisfed.org/series/OUTMS>.
- Subhayu Bandyopadhyay, Todd Sandler, and Javed Younas. 2011. "Foreign aid as counterterrorism policy." *Oxford Economic Papers* (Oxford University Press) 63 (3): 423-447. <http://www.jstor.org/stable/23015137>.
- The World Bank. 2018. *Why the Dollar Is the Global Currency*. February 19. Accessed March 12, 2018. <https://www.thebalance.com/world-currency-3305931>.
- The World Bank. 2012. *Pacific Islands: Disaster Risk Reduction and Financing in the Pacific*. The World Bank Group. April 1. Accessed March 21, 2018. [www.worldbank.org/en/results/2012/04/01/pacific-islands-disaster-risk-reduction-and-financing-in-the-pacific](http://www.worldbank.org/en/results/2012/04/01/pacific-islands-disaster-risk-reduction-and-financing-in-the-pacific).
- Todd, Emmanuel. 2003. *Dopo l'impero - la dissoluzione dell'impero americano*. Marco Tropea editore.
- UNDP. 2015. "Human Development Data (1990-2015)." *United Nations Development Programme (Human Development Reports)*. Accessed March 25, 2018. <http://hdr.undp.org/en/data>.
- United Nations Population Fund. 2014. *Population and Development Profiles: Pacific Island Countries*. UNFPA - Pacific Island Countries. [http://pacific.unfpa.org/sites/default/files/pub-pdf/web\\_\\_140414\\_UNFPAPopulationandDevelopmentProfiles-PacificSub-RegionExtendedv1LRv2\\_0.pdf](http://pacific.unfpa.org/sites/default/files/pub-pdf/web__140414_UNFPAPopulationandDevelopmentProfiles-PacificSub-RegionExtendedv1LRv2_0.pdf).
- U.S. Chamber of Commerce. 2015. *The Benefits of International Trade*. Accessed February 02, 2018. <https://www.uschamber.com/international/international-policy/benefits-international-trade>.
- Watsa, Kavita. 2009. *Pacific Islands Development In 3D*. Findings and Policy advice, Washington: The World Bank.
- Williams, David. 2013. "The History of International Development Aid." In *Handbook of Global Economic Governance*, by C. Weaver M. Moschella. London: Routledge. Accessed August 12, 2017. <https://qmro.qmul.ac.uk/xmlui/bitstream/handle/123456789/8063/WILLIAMS%20History%20of%20International%20Development%20Aid%202013.pdf?sequence=2>.
- Williams, DG. 2013. "The History of International Development Aid." In *Handbook of Global Economic Governance*, by M Moschella and C Weaver. London: Routledge.
- Williams, Victoria. 1998. *Foreign Aid*. Accessed February 12, 2018. <https://www.britannica.com/topic/foreign-aid>.



WTO. 2016. "World Trade Statistical Review 2016." *wto.org*. Accessed March 11, 2018.  
[https://www.wto.org/english/res\\_e/statis\\_e/wts2016\\_e/WTO\\_Chapter\\_06\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2016_e/WTO_Chapter_06_e.pdf).

### Chapter 3

Asian Development Bank(2010),*Statistical Database System (summary country Reports)*,<https://sdb.sadb.org/sdbs/index.jsp>, accessed on 25 June, 2018

Bowman, Chakriya and Satish Chand(2008), "Size Matters: The Impact of Aid on Insitutions",*Pacific Economic Bulletin* 23 (2): 145-65.

Cassels, Susan (2006), *Overweight in the Pacific: links between foreign dependence, global food trade, and obesity in the Federated States of Micronesia*, 11 July, [Online: web] Accessed October 3, 2017 URL:  
<https://globalizationandhealth.biomedcentral.com/articles/10.1186/1744-8603-2-10>.

Chand, Satish(2001), "Managing natural Resources in the Pacific Islands",*International and Development Economics Working Paper 01-6*, Asia Pacific School of Economics and Government THE AUSTRALIAN NATIONAL UNIVERSITY.

Connell, John(1991), "Island Microstates: The Mirage of Development",*The Contemporary Pacific* (University of Hawai'i Press) 3 (2), Accessed March 20, 2018,<http://www.jstor.org/stable/23699930>.

Dornan, Matthew and Jonathan Pryke(2017), "Foreign Aid to the Pacific: Trends and Developments in the Twenty-First Century",*Asia & the Pacific Policy Studies* (JohnWiley & Sons Australia, Ltd (The Australian National University)) 4 (3): 386-404, Accessed March 27, 2018, doi:10.1002/app5.185.

Feeny, S. (2007), "Foreign Aid and Fiscal Governance in Melanesia",*World Development* 35 (3): 439-53.

Feeny,Simon. et al. (2014), "Growth and Foreign Direct Investment in the Pacific Island Countries." *Economic Modelling* 332-339.

Goff, Philip(2006), "Pacific Regionalism: Tradition, Continuity, Renewal", In *Redefining the Pacific?*, by and Ian Frazer Jenny Bryant-Tokalau, 25-32, Hampshire: Ashgate Publishing Limited.

Gouy, Janathan. (2011), "Aid, Dutch Disease, and the Pacific", In *The Political Economy ofEconomic Reform in the Pacific*, by Ron Duncon, 327-343,Manila: Asian Development Bank.

Government of India (2018). *Economic Survey 2017-18*, Ministry of Finance, New Delhi.

Hezel, Francis X. (2012),*Pacific Island Nations How Viable Are Their Economies?* Pacific Islands Policy 7, Honolulu: East-West Center,Accessed 04 23, 2018,

[http://hl-128-171-57-22.library.manoa.hawaii.edu/bitstream/10125/22221/1/pip007\\_0.pdf](http://hl-128-171-57-22.library.manoa.hawaii.edu/bitstream/10125/22221/1/pip007_0.pdf).

- Huffer, Elise(2006), "The Pacific Plan: A Political and Cultural Critique", In *Redefining the Pacific? Regionalism Past, Present and Future*, by Jenny Bryant Tokalau and Ian Frazer, 157-174, Hampshire: Ashgate Publishing Limited.
- Kharas, Homi(2008),*Measuring the Cost of Aid Volatility*, Wolfensohn Center for Development Working Papers, Brookings, Accessed June 25, 2018, <https://www.brookings.edu/research/measuring-the-cost-of-aid-volatility/>.
- Manetarai, Selwyn Kole(2008), "AID IMPACT ON EDUCATION DEVELOPMENT IN THE SOLOMON ISLANDS: A Case Study of the New Zealand Aid for Primary Education in the East - Central Guadalcanal constituency", Suva: The University of the South Pacific, July.
- Morrissey, O. (2014), "Aid and Government Fiscal Behavior: Assessing Recent Evidence",*World Development* In Press.
- Murray, Warwick E, and John Overton (2011), "The inverse sovereignty effect: Aid, scale and neostructuralism in Oceania",*Asia Pacific Viewpoint* (Victoria University Wellington) 52 (3): 272-284, Accessed June 26, 2018,<https://onlinelibrary.wiley.com/doi/epdf/10.1111/j.1467-8373.2011.01468.x>.
- National Geographic Society, (2012),*Australia and Oceania: Resources*, Accessed March 21, 2018, <https://www.nationalgeographic.org/encyclopedia/oceania-resources/>.
- Wikinews(2010)–“News Briefs”, *Wikinews, The Free News Source*, 27 April 2010 [https://en.wikinews.org/wiki/News\\_briefs:April\\_27,\\_2010](https://en.wikinews.org/wiki/News_briefs:April_27,_2010), Accessed July 03, 2018.
- OECD(2009), "How Fragmented is Aid?",*Development Co-operation Report 2009* 35-52, Accessed June 25, 2018, doi:<https://doi.org/10.1787/dcr-2009-7-en>.
- 2018,*Paris Declaration and Accra Agenda for Action*, Accessed July 02, 2018, <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>.
- Oxfam New Zealand(2017a),*Killer facts: poverty in the Pacific*. Accessed March 27, 2018, <https://www.oxfam.org.nz/what-we-do/issues/millennium-development-goals/killer-facts-pacific-poverty>.
- (2017b),*Poverty in the Pacific*, Accessed March 21, 2018, <https://www.oxfam.org.nz/what-we-do/where-we-work/poverty-in-the-pacific>.
- Saili, Charmina(2016), "Pacific engagement in Global Aid/Development Effectiveness Monitoring Process, Progress, Challenges & Way Forward",*Development Financing for SDGs & GPEDC HLM2 AP Consultation*, Bangkok, October 26, Accessed July 02, 2018, [81](http://www.asia-</a></p></div><div data-bbox=)

[pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/PIFS%20-%20Pacific%20GPEDC%20monitoring%20lessons%20.pdf](http://pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/PIFS%20-%20Pacific%20GPEDC%20monitoring%20lessons%20.pdf).

- Toy, Andie Fong (2006), "The Pacific Islands Forum and Regional Cooperation", In *Redefining the Pacific? Regionalism Past, Present and Future*, by Jenny Bryant Tokalau and Ian Frazer, 33-41, Hampshire: Ashgate Publishing Limited.
- Tuimaleali'ifano, Patrick(2015). *MDGs: Perspectives from the Pacific Region*. October 13. Accessed June 26, 2018.  
<http://www.undp.org/content/undp/en/home/blog/2015/10/13/MDGs-Perspectives-from-the-Pacific-Region.html>.
- Tumbarello, Patrizia, et al.(2013) "Are the Asia and Pacific Small States Different from Other Small States?",*IMF Working Paper*, International Monetary Fund, May.
- UNDP (2015) "Human Development Data (1990-2015)",*United Nations Development Programme (Human Development Reports)*, Accessed March 25, 2018, <http://hdr.undp.org/en/data>.
- United Nations Population Fund(2014),*Population and Development Profiles: Pacific Island Countries*, UNFPA - Pacific Island Countries  
[http://pacific.unfpa.org/sites/default/files/pub-pdf/web\\_\\_140414\\_UNFPAPopulationandDevelopmentProfiles-PacificSub-RegionExtendedv1LRv2\\_0.pdf](http://pacific.unfpa.org/sites/default/files/pub-pdf/web__140414_UNFPAPopulationandDevelopmentProfiles-PacificSub-RegionExtendedv1LRv2_0.pdf).
- USAID(2017),*Humanitarian Assistance*, January 17, Accessed July 01, 2018, <https://www.usaid.gov/pacific-islands/working-crises-and-conflict>.
- Watsa, Kavita(2009),*Pacific Islands Development In 3D*, Findings and Policy advice, Washington: The World Bank.
- Wesley-Smith, Terence(2006), "There Goes the Neighbourhood: The Politics of Failed States and Regional Intervention in the Pacific", In *Redefining the Pacific?*, by and Ian Frazer Jenny Bryant Tokalau, 121-139, Hampshire: Ashgate Publishing Limited.
- Wilson, Catherine(2014),*Pacific Nations Need Help Away From Aid*, January 29, Accessed June 26, 2018,<http://www.ipsnews.net/2014/01/pacific-nations-need-help-away-aid/>.
- World Bank(2012),*Pacific Islands: Disaster Risk Reduction and Financing in the Pacific*, The World Bank Group, (1) April, Accessed March 21, 2018.  
[www.worldbank.org/en/results/2012/04/01/pacific-islands-disaster-risk-reduction-and-financing-in-the-pacific](http://www.worldbank.org/en/results/2012/04/01/pacific-islands-disaster-risk-reduction-and-financing-in-the-pacific).
- World Bank,(2018),*Pacific Islands Overview*, Accessed July 02, 2018, <http://www.worldbank.org/en/country/pacificislands/overview#1>.
- Zhang, Jian(2015), "China's Role in the Pacific Islands Region", In *Regionalism, Security & Cooperation in the Oceania*, by Rouben Azizian and Carleton

Cramer, 43-56, Honolulu: The Daniel K. Inouye, Asia-Pacific Center for Security Studies.

#### Chapter 4

- Admin, Yadda (2013), *Powering Africa: Is the US set to deliver on energy?* August 13, [Online:Web] Accessed July 07, 2018, URL: <https://renewable-world.org/powering-africa-us-set-deliver-energy/>.
- Alesina, Alberto and David Dollar (2000), "Who Gives Foreign aid to Whom and Why?", *Journal of Economic Growth*, (Springer) 5 (1): 33-63, Accessed September 11, 2017, URL: <http://www.jstor.org/stable/40216022>.
- Atwood, Brian (1995), *The Future of Foreign Aid -- Brian Atwood*, May 09, [Online:Web] Accessed July 07, 2018, URL: <https://publicpolicy.wharton.upenn.edu/live/news/1969-foreign-aid-good-for-america-good-for-the-world/for-students/blog/news.php>.
- Bourguignon, François and Jean-Philippe Platteau (2015), "The Hard Challenge of Aid Coordination", *World Development*, 65: 86-97, Accessed July 10, 2018, URL: <https://www.sciencedirect.com/science/article/pii/S0305750X13002957>.
- Brautigam, Deborah (2000), *Aid Dependence and Governance*, Stockholm: Export Group on Development Issues (EGDI), [Online:Web] Accessed July 07, 2018, URL: <https://deborahbrautigam.files.wordpress.com/2013/04/2000-aid-dependence-and-governance.pdf>.
- Burnside, Craig and David Dollar (2000), "Aid, Policies, and Growth", *American Economic Review* 90 (4): 847-68.
- Caneva, Lina (2017), *Study Shows Foreign Aid Spending is Good for Australian Exports*, October 23, [Online:Web] Accessed July 07, 2018, URL: <https://probonoaustralia.com.au/news/2017/10/study-shows-foreign-aid-spending-good-australian-exports/>.
- Coughlan, Sean (2014), *Humanitarian aid can benefit donors too, says study*, February 19, [Online: web] Accessed July 07, 2018, URL: <https://www.bbc.com/news/education-26259643>.
- Cumbo, Peter (2017), *Foreign Aid good for America, good for the World*, July 09, [Online: web] Accessed July 06, 2018, URL: <https://publicpolicy.wharton.upenn.edu/live/news/1969-foreign-aid-good-for-america-good-for-the-world/for-students/blog/news.php>.
- Cunningham, Marnie (2017), *New Study Shows Every \$1 Spent on Australian Foreign Aid Returns \$7.10 in Exports*, October 31, [Online: web] Accessed July 07, 2018, URL: <https://www.globalcitizen.org/en/content/new-study-shows-every-1-spent-on-australian-foreign/>.

- Easterly, William (2003), "Can Foreign Aid Buy Growth?", *The Journal of Economic Perspectives*, (American Economic Association), 17 (3): 23-48. URL: <https://www.jstor.org/stable/3216821>.
- Easterly, William (2007), "Are Aid Agencies Improving?", *Economic Policy* 22 (52): 633+635-678, Accessed September 16, 2017, URL: <http://www.jstor.org/stable/4502212>.
- Farzam, Reza and Rustam Ali Seerat (2016), *The Failure of Foreign Aid in Afghanistan*, October 18, [Online: web] Accessed July 09, 2018, URL: <https://thediplomat.com/2016/10/the-failure-of-foreign-aid-in-afghanistan/>.
- Fourie, Willem (2018), *Why the world's poorest countries don't always get the foreign aid they need*, April 13, [Online: web] Accessed July 04, 2018, URL: <https://theconversation.com/why-the-worlds-poorest-countries-dont-always-get-the-foreign-aid-they-need-94371>.
- Galeano, Eduardo (1973), *Open Veins of Latin America: Five Centuries of the Pillage of a Continent*, New York: Monthly Review Press.
- Gani, Azmat (2006), "Pacific Island Countries High Per Capita Foreign Aid Requirement", *Journal of International Development*, 18: 285-292, doi:10.1002/jid.1217.
- Hughes, H (2003), "Trade or aid? Which benefits developing countries most?", *Economic Papers*, 22 (3): 20-34.
- Iaccino, Ludovica (2014), *China: More than 82 Million People Live Below Poverty Line*, October 16, [Online: web] Accessed July 07, 2018, URL: <https://www.ibtimes.co.uk/china-more-82-million-people-live-below-poverty-line-1470313>.
- International Monetary Fund and International Development Association (2006), *Global Monetary Report 2006: Strengthening Mutual Accountability - Aid, Trade, and Governance*, Washington DC: World Bank.
- Johnsen, Erika (2013), *Obama's "Power Africa" plan: What happens when good intentions meet political-economic reality?*, July 02, [Online: web] Accessed July 06, 2018, URL: <https://hotair.com/archives/2013/07/02/obamas-power-africa-plan-what-happens-when-good-intentions-meet-political-economic-reality/>.
- Keo, Peter Tan (2013), *The Dark Side of Foreign Aid*, November 05, [Online: web] Accessed July 09, 2018, URL: <https://thediplomat.com/2013/11/the-dark-side-of-foreign-aid/>.
- Mikolajuk, Christine (2005), "Thanks, But No Thanks: The Other Face of International Humanitarian Aid", *Harvard International Review*, 26 (4): 32-35, Accessed September 15, 2017, URL: <http://www.jstor.org/stable/42762997>.

- Npanaggio (2013), *The American Benefits of "Power Africa"*, July 03 [Online: web] Accessed July 06, 2018, URL: <https://blogs.elon.edu/soc376ol/?p=2618>.
- PEPFAR (2018), *PEPFAR Now Reaches Over 14 Million People Globally with Lifesaving HIV Treatment*, May 16, [Online: web] Accessed July 07, 2018, URL: <https://www.pepfar.gov/press/releases/282136.htm>.
- Pillar, Paul R. (2014), *Aid to Syrian Rebels: How Does It End?*, June 29, [Online: web] Accessed July 08, 2018, URL: <https://www.brookings.edu/opinions/aid-to-syrian-rebels-how-does-it-end/>.
- Powell, Robert, 1991, "Absolute and Relative Gains in International Relations Theory", *The American Political Science Review* ( American Political Science Association ), 85 (4): 1303-1320, Accessed July 10, 2018, URL: <http://www.jstor.org/stable/1963947>.
- Rudra, Ashok (1970), "New Urgency about Aid", *Economic and Political Weekly* (Economic and Political Weekly), 5 (32): 1341+1343-1345, Accessed September 15, 2017, URL: <http://www.jstor.org/stable/4360302>.
- Shah, Anup (2007), *Food Aid*, December 03, [Online: web] Accessed July 07, 2018, URL: <http://www.globalissues.org/article/748/food-aid>.
- Selbervik, Hilde (1999), *Aid and conditionality; The role of the bilateral donor: A case study of Norwegian–Tanzanian aid relationship*, Norwegian Ministry of Foreign Affairs, [Online: web] Accessed 01 July, 2018, URL: <https://www.oecd.org/countries/tanzania/35178610.pdf>.
- Stanford, Victoria (2015), *Aid Dependency: The Damage of Donation*, July 31, [Online: web] Accessed July 07, 2018, URL: <https://www.twigh.org/twigh-blog-archives/2015/7/31/aid-dependency-the-damage-of-donation>.
- Stent, Bill. 1982. "A Critique of the Administration of Australia's Overseas Food Aid." *The Australian Quarterly* (Australian Institute of Policy and Science) 54 (1): 51-62. <http://www.jstor.org/stable/20635154>.
- Suwa-Eisenmann and Thierry Verdier (2007), "Aid and trade", *Oxford Review of Economic Policy* (Oxford University Press), 23 (3): 481-507, Accessed September 15, 2017, URL: <http://www.jstor.org/stable/23606701>.
- Tendler, Judith (1975), *Inside Foreign Aid*, Baltimore: Johns Hopkins University Press.
- USAID (2017), *Power Africa / About Us*, April 03, [Online: web] Accessed July 06, 2018, URL: <https://www.usaid.gov/powerafrica/aboutus>.
- (2018), *Power Africa / Video Transcript*, July 06, [Online: web] Accessed July 06, 2018, URL: <https://www.usaid.gov/news-information/videos/power-africa>.
- Wittkopf, Eugene R. (1973), "Foreign Aid and United Nations Votes: A Comparative Study", *The American Political Science Review*, 67 (3): 868-888, Accessed July 07, 2018, URL: <http://www.jstor.org/stable/1958630>.

- Woo Byungwon and Eunbin Chung (2017), "Aid for Vote? United Nations General Assembly Voting and American Aid Allocation", *Political Studies*, Accessed July 07, 2018, URL: <https://doi.org/10.1177/0032321717739144>.
- World Bank (2002), *A Case for Aid: Building a Consensus for Development Assistance*, Washington D. C.: World Bank.
- World Bank (2005), *Global Monitoring Report 2005. Millenium Development Goals: From Consensus to Momentum*, Washington DC: World Bank.
- World Vision Australia (2015), *Australian Aid Works*, [Online:Web] Accessed July 07, 2018, URL: <https://www.worldvision.com.au/get-involved/advocacy/australian-aid>.
- Zhang, Jian (2015), "China's Role in the Pacific Islands Region", In *Regionalism, Security, Cooperation in Oceania*, by Rouben Azizian and Carleton Cramer, 43-56, Honolulu: Asia-Pacific Center for Security Studies.