Foreign Aid and Economic Development A Study of India, South Korea and Colombia

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DECLARATION

I hereby declare that the work embodied in this thesis entitled " Foreign **Aid** and **Economic Development: A Study of India,** South Korea and Colombia " carried out by me under the supervision of Prof. G. Nancharaiah, Department of Economics, University of Hyderabad, is original and this has not been submitted for any degree either in part or in full to this University or any other University.

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This is to certify that the Research work compiled in this thesis entitled " **Foreign Aid and Economic Development : A Study of India, South Korea and Colombia** " **has** been carried out by Ms. J. Sudha Sowbhagyavathi Fraser in fulfilment of the requirement for the award of the degree of Doctor of Philosophy in Economics under my supervision. The thesis or a part thereof has not been submitted for any other degree at this University or any other University to the best of my knowledge.

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ABBREVIATIONS.

Bops •	Balance of Pyaments
CMIE	Centre for Monetaring Indian Economy
CPS	Consolidated Public Sector
DAC	Development Assistance Committee
DFI	Direct Foreign Investment
EPB	Economic Planning Board
FAO	Food and Agriculture Organisation
GAD	Gross Aid
GDCF	Gross Domestic Capital Formation
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GNP	Gross National Produce
IBRD	International Bank for Reconstruction and Development
ICOR	Incremental Capital Output Ratio
IDA	International Development Agency.
IDB	International Development Bank
IDF	India Development Forum
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
LDCs	Less Developed Countries
LDCs	Least Developed Countries[48 countries with a combined population of 380 mill.]

NIEO	New International Economic Order
ODA	Official Development Agency
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square
OPEC	Organisation of Petroleum Exporting Countries.
PL 480	Public Law 480
SCNR	Supreme Council for National Reconstruction
UAE	United Arab Emirates
UDCs	Under developed countries
UNCTAD	United Nations Conference On Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USAID	United States Agency for International Development

CHAPTER-I

INTRODUCTION

Foreign Aid is considered as an important instrument of the foreign policy of states after the Second World War, foreign aid has become an important aspect of foreign policies of nations designed to promote national interest. Even before the first world war, foreign capital was used as profitable mode of investment. However, it was only in the post war period that the flow of foreign aid in a planned way began, when developed western countries started contributing to the socio-economic reconstruction programs of their war allies. In 1938 the United States of America began giving aid to the Latin American countries under an educational exchange programme [1].

After the second world war the United States involvement on large-scale began with the introduction of the Marshall Plan in the 1947, which brought $ 23 billion of US aid into western Europe during 1947 to 1952. The Marshall Plan involved the rehabilitation of modern highly productive societies temporarily damaged by war and thus worked successfully. The confidence in the efficiency of foreign aid was stimulated by the success of the Marshall Plan in achieving a rapid reconstruction of west European economies [2].

The Foreign aid programming remained a topic of both controversy and consensus. The traditional economists argued that aid has indeed helped to promote growth and structural transformation in many Less Developed Countries (LDCs)[3]. On the other hand in the view of the radical "new left", economists aid is yet another instrument of world monopoly capitalism designed to exploit the countries of the third world. The World Bank and the USAID are regarded as the creation of world monopoly capitalism designed to propagate the capitalist creed in the Third World. These institutions are accused of using aid as a bargaining instrument for obtaining favourable treatment to foreign private investment in the third world countries and for obtaining easy entry for the export of goods and services from the west and for the promotion of economic policies beneficial to the donors of aid [4]. In the words of the Oxford economist, representative of " left wing ", Keith Griffin," If any thing aid may have retarded development by leading to lower domestic savings by distorting the composition of investment and thereby raising the capital-out-put ratio by frustrating the emergence of an indigenous entrepreneurial class and by inhibiting institutional reform" [5].

According to Prof. Peter Bauer representative of the right wing school opines that aid is neither a necessary nor a sufficient condition for development. It is not necessary because several developing countries such as, Hong Kong, Singapore, Malaysia, Thailand, Nigeria and Mexico made rapid progress between last quarter of nineteenth century and the middle of the twentieth century without much aid. Aid is not a sufficient condition for development because many countries which have received substantial aid have made little progress. In the absence of other essential ingredients for development such as human skills, institutions and attitudes conducive to progress, aid is likely to be wasted. It encourages misallocations of resources, weakens domestic savings efforts and allows recipient government to indulge their selfish motive for ostentatious projects [6].

Prof. Bauer offers analysis and historical evidence to support his conclusion that inter-governmental aid does not substantially contribute to economic development and may even retard it. He argues that the widely publicised type of large-scale, indefinite aid what might be termed mainstream foreign aid has not served to bring about an appreciable rise in living standards in UDCs, or to promote their economic development, despite the large sums that have been and are being provided. While foreign aid may indeed, sometimes serves its commonly aroused purpose of improving economic conditions in the recipient countries, in general mainstream aid has not fulfilled and cannot fulfill the expectations which it arouse. Indeed aid often damages the development prospects of the recipients [8].

Moreover it is observed that the above stated views regarding the role of foreign aid may be true in the case of certain countries and may not be so in the case of others. It may, therefore be observed that geographical conditions, the level of socio-economic development, the political policies of the ruling elite, the attitude of the people towards development, and bureaucratic efficiency and level of technological advancement are some of the conditions in which foreign aid has to function. It is needless to say that these factors differ from country to country and, hence, the role and achievement of foreign aid would differ from country to country [9].

IMPORTANCE OF THE FOREIGN AID :

The purpose of an international program of aid to under developed countries is to accelerate their economic development upto a point where a satisfactory growth of rate can be achieved on a self-sustaining basis. Capital flows in the form of foreign aid , private foreign investment, and private bank lending are the principle ways by which resources can come from rich to poor countries. The transmission of technology, ideas and knowledge are other special types of resource transfer.

When discussing the constraints on development, we referred to the savings gap and the foreign exchange gap. A net capital inflow contributes to the filling of both gaps. Aid increases the amount of resources available for capital formation above what can be provided by domestic savings : Aid supplements domestic savings .It also raises the recipient economy's capacity to import goods: aid provides foreign exchange and eases the problem of making international payments.

Countries in early stages of development assumed to have a primary need for technical assistance and institution building, and only limited need for capital assistance chiefly for infrastructure projects. As the need for capital assistance increases, the need for technical assistance shifts from general to more specific skills. The gradual increase in domestic savings, and a growing capacity to attract private and other conventional foreign capital on non-concessionery terms will progressively reduce the need for foreign aid. The assumption that the need for foreign aid is temporary and limited is underlined several recipients in Latin America else where and expected to attain rapid development in ten to fifteen years but it is recognized that, in Asia and Africa, the need for aid will remain for a much longer time [11].

Aid has both beneficial as well as some adverse impacts on the country's growth and development of an economy. Appropriate policies have to be undertaken to minimise the adverse effects of aid on domestic savings, inflation etc.

Earlier studies in the area of foreign aid such as mostly multi-country studies of Rahman Md., Anisur(1968), Grifiin and Enos(1970), Papanek(1972), Victor Levy(1987), Mosley(1987), Chenery and Eskstein(1970), Chenery & Strout(1966), Paul Bowles(1987), Rana & Malcolm Dowling(1988). The country specific studies tried to measure the impact of aid on one or two variable such as growth, savings, investment etc. such as Stanley Katz(1969), Pandya(1972), Thimmaiah(1977), Mangat Ram Agarwal(1980), Rubin(1982), Badri Narayanan(1988). In this context, the study attempts to bridge the gap with the following ways to examine the relationship among foreign aid and other variables like GNP, Saving, Investment, Exports and Population specifically in Indian context. An attempt is also made to study the role of aid in the economic development of India, in comparison with South Korea and Colombia.

Objectives of Study :

1. To examine the impact of aid on economic growth by examining its effect on savings, Gross Domestic Capital Formation, Exports, Private Investment, Population with special reference to India.
2. To examine the pattern of aid which is changing recently in the case of. developing countries and
3. To study the role of aid and its importance in the economic development of India in comparison with South Korea and Colombia.

Sources of Data:

The data relating to aid, GNP, Savings, Capital Formation, Population, Private Investment etc. gets from Economic Survey, CMIE, Five Year Plan Documents, National Account Statistics, World Tables, Global Development Finance 1997 (formerly, debt tables), World Economic and Social Survey, World Development Indicators, Trade and Development Report and International Financial Statistics, Statistical year book of Latin America and Caribbean [a UN publication].

SCHEME OF THE STUDY:

1. Introduction of the problem to be studied, objectives and methodology.

2. Review of the existing literature.

3. Foreign aid to developing countries

4. Foreign aid to India during five year plans including share of aid in total investment, share of aid in public plan outlay, share of aid in imports and the purpose of utilisation. Empirical testing of objectives of the study with reference to India are also presented in this chapter.

5. The role of Foreign Aid in the economic development of South Korea and Colombia .

6. Comparative analysis of Foreign Aid and its role in the economic development of India in comparison with South Korea and Colombia.

7. Summary and Conclusions.

Methodology [REVIEW OF EARLIER STUDIES] :

1. Gustav F Papanek [1973] article " Aid, Foreign Private Investment, Savings and growth " clearly saying that investment is one of the major determinants of growth.

His methodology suits the present study 's first objective i.e., impact of foreign aid on growth of India. The present study used the following 3 formulas.

1. Growth = a + b savings + c aid + d foreign private investment + e other foreign inflows.

2. Growth = a + b savings.

3. a + b aid + c savings.

2. Victor Levy [1987] examines to what extent the inflow of resources contribute, the economic growth. The methodology followed in this study is to find out the impact of aid on investment.

$$(I/Y)_i = \grave{a} + \acute{a}(S/Y)_i + T(A/Y)_i \quad .\ .\ .\ .(1)$$

ratio of GDI of $_{(i)}$ country $\frac{\text{GPS}}{\text{GDP}}$ in $_{(i)}$ country $\frac{\text{PDA}}{\text{GDP}}$ in $_{(i)}$ country

GDP

Victor Levy also examines the possibility that the link between aid and domestic investment varies with the level of development of the economy. Thi.s hypothesis is based on the reasoning that a large and more developed economy is more likely invest a higher share of its aid receipts, where as the least developed economies might have a greater tendency to use aid to maintain a subsistence level of consumption.

Therefore he extends the equation the value of T is permitted to vary with the measure of development (Z_i) of the economy.

$$(I/Y)_i = a + a(S/Y)_i + (T_0 + T_1 Z_1 (ODA/Y)_i \quad . \quad . \quad . \quad .(1)$$

The Logarithm of income per capita was used to measure the level of development, so that the spread of the variable would not be dominated by the few largest observation.

The additional aid may induce the public sector to use domestic resources for current consumption. This hypothesis implies a negative correlation between domestic saving rate and the aid ratio.

3. Amit Bhaduri and Rume S Karstein says in order to capture the demand and the supply implications of foreign aid it is necessary to distinguish between the different forms in which aid is used as free foreign exchange, aid tied to specific imports, aid as commodity import support for consumption, investment or intermediate goods.

The author assumes inflows of foreign finance called foreign aid are always used up within the short period for covering the trade deficit.

Measuring relevant variables in domestic currency at constant prices.

$$M - E = A$$

where M = imports of goods and services.

E = exports of goods and services.

A = net inflow of foreign aid (equals gross by assumption)

The extremely concessional nature of foreign finance as pure grant entails that it is not the recipient but the donor who decide the level of aid. Therefore, foreign aid may be treated as an exogenous variable from the point of view of the recipient country.

4. Pradumna B Rana & J. Malcolm Dowling Jr.[1988] their idea is that the South recognised that trade leads to growth and it also gives more emphasis to concessional flows from North which stimulate or accelerate rapid economic growth and remove widespread poverty.

Their model: Simultaneous Model.

$$GR = a_0 + a_1.AID + a_2 . FPI + a_3. s + a_4 CX + a_5 . CLF$$

$$(a_1 > 0 \ , a_2 \underset{<}{<} 0, a_4 \underset{>}{>} 0, a_5 > 0) + Ut \ldots\ldots (1)$$

GR = Growth rate of GDP.

AID = Foreign Aid as % of GDP

FPI = Foreign Private investment (including long-term borrowing) as % of GDP.

S = Gross domestic saving as % of GDP

CX = Change in exports as % of GDP

CLF = Change in labour force

GDPN = GDP per capita

U, V = Stochastic error terms.

The above model consists of 2 endogenous variables and 5 exogenous variables. (AID, FPI, CX, CLF and GDPN). They followed indirect least square technique to estimate the equations.

While estimating the above equations they faced 2 problems.

1. Low quality of data.

2. Lack of long time series.

The first problem not solved. The 2nd one is solved by pooling cross-sector and time-series data of 9 developing Asian Countries 1965-82.

The results are quite satisfactory. The results show that foreign investment and growth of labour force have a favourable and statistical significant effect on growth of Asian developing countries. While the effect of foreign aid export performance is also favourable, these variables are only marginally significant. (i.e., the co-efficient is larger than standard error).

The major finding of this paper is that foreign capital flow have made a positive contribution to the growth of Asian developing countries where as foreign direct investment contributed to capital formation and investment efficiency. Foreign aid increased capital formation only.

The other major findings of the paper is that export performance, growth of the labour force and domestic saving rate have also contributed favorably to growth. In relative terms, foreign private investment and export performance have contributed more than aid, supporting the North's position on self-reliant approaches for developing countries.

Also the growth of labour force and higher domestic savings have contributed more than foreign capital flows.

In the case of the recipient countries, the most important implication is that if the countries wish to achieve rapid economic growth, maximum efforts will have to be directed towards increasing productivity of labour force and towards mobilising domestic resources.

The recipient country should be careful in deciding which type of foreign capital to encourage and the type of policy to adopt.

Haavelmo [1963] proposed an interesting hypothesis about a developing country's savings function $It = a [Y (t) + H (t)]$ where **I** stands for gross investment, where Y for GNP and H for capital flows. He says that investment is a function of income including what they get from foreign countries. He concluded that domestic savings are negative if H is large enough.

According to Rahman[1968] Domestic savings depend not only on income but also negatively on foreign capital inflows. He modified the above formula slightly.

$$It = a y(t) + b H(t).$$

Since $I(t) = S(t) + H(t)$ where $S(t)$ denotes domestic savings we get domestic savings function.

$$S(t) = a y(t) + b' H(t)$$

where $b' = b - 1$,

$$\frac{S(t)}{y(t)} = a + b' \frac{H(t)}{y(t)} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Rahman used 31 less developed countries data and estimated the equation. He concluded by seeing the results that foreign capital is used not only for augmenting investment but also as a substitute for domestic savings.

6. Econometric studies of aid to India, however take a different task, using investment as the dependent variable and aid (along with various government budget indicators and sometimes the level of national income itself) as the independent variable for e.g. Chaudhuri (1978) tested an equation of the form.

$$I_t = a + bY_t + cA_t$$

Where I is investment, Y is Net National Product and A is gross utilised aid (including a small but unspecified amount of concessional finance with a grant element too low to constitute aid) minus food aid. Here food aid was excluded on the grounds hat it was not intended to finance public investment. The analysis thus suggests that aid had a fairly strong positive effect on the level of investment.

Methodology of the study :

The Chapter Foreign Aid to India is a comprehensive one. It covers the amount of aid flown to India during the planning period and the amount actually utilised. The share of aid in total plan outlay in total investment, in plan-wise (1951-1996) was calculated. The ratio of aid to total imports (1974-1996) were calculated. The purpose-wise distribution of foreign aid by the Government to various sectors during the planning era is also incorporated. In the context of developing countries , the study noted the changing pattern of aid in the form of an increase in the concessional component of aid (Table 3.3).

The present study attempts to analyse, the impact of aid on the economy. For Indian economy, the study covers for the period 1963-94. The availability of the data on all variables required in the study was from 1963 onwards. Data on Aid were available plan-wise only from 1950 to 1963. The non-availability of year-wise data prior to 1963 is the reason for the analysis to begin from the year 1963.

The study made use of trend analysis to quantify the growth rates of variables used in the study decade-wise Secondly, from the above stated review studies, a few equations were estimated using simple linear regression method in the Indian context for the period, 1963-1994 and are discussed below. Finally a comparative study for a period 1980-90, of India, South Korea, and Colombia was done to assess the impact of aid on Growth, Savings, Investment and other variables.

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CHAPTER - II

Review of Literature

The review of literature is divided into three sections. The first section deals with cross-country studies, the second section deals with time series data and the third section deals with the works related mainly to India.

Cross-Country Studies :

Haavelmo[1] (1963) examined the impact of foreign capital on investment. According to him investment is a function of both domestic income and foreign capital. He argues that domestic savings could be negative if foreign capital is large enough. He concluded that foreign aid substitutes instead of supplementing domestic savings.

. Rahman[2] (1968) in his paper attempts to see the inverse relationship between foreign aid and savings. He used cross country data for 31 less developed countries in 1962 from Chenery and Strout study. By using the ordinary least squares method, he found the regression co-efficient negative. He concluded that foreign capital is used not only for augmenting investment but also a substitute for domestic savings. From this, he advanced the behaviouristic hypothesis, namely that the Government in developing countries may "voluntarily relax domestic savings efforts when more foreign aid is available than otherwise."-

While suspecting Rahman's results, Gupta[3] (1970) used the same source of data for 50 countries, and ran a regression to see the effect of foreign capital on savings. According to him, foreign aid leads to economic development. It is not at all clear to him as why Rahman decided to exclude the 19 countries included in Chenery and Strout study. It can be easily seen that the results obtained by him is just opposite of Rahman's. Not only do we find, that the co-efficient of capital inflow is positive, but also that it is not significantly different from zero. From his estimation, it would appear that foreign capital inflows have virtually no effect on domestic savings in the LDCs.

Griffin and Enos[4] (1970) supported Rahman's arguments, there are several points that Griffin makes in his paper. The most important argument is their paper is that foreign aid inflows reduce the domestic savings rate rather than being a supplement to domestic resources, aid often acts as a substitute for them. This mechanism operates in both the public and private sectors. Faced with inflows of foreign aid, LDC governments may reduce their tax efforts or change the composition of their expenditure towards consumption. Similarly, the availability of low-interest loans may reduce the incentive to save in the private sector. The result of this is that the savings rate falls as aid is increased. Griffin tested this proposition using cross section data for 32 LDCs in 1962-64. Griffin further argued that aid inflows caused domestic savings rates to fall. Griffin did recognise that the correlation could be interpreted in the alternative casual direction, i.e., countries received high aid because their savings rates were low, reflecting the countries under developed economies. Interestingly, though the negative correlation which Griffin found between domestic savings and foreign aid was confirmed by later researchers.

Weisskopf (1972) in his criticism of Rahman's and Griffin and Enos' results argued that they are suggestive and not conclusive, pooled data for 17 countries with income and exports (as additional variables) he concluded that the negative impact of foreign capital inflow on domestic savings applied to ex - ante savings and not ex-post savings.

Papanek[6] (1972) in his paper re-examined the whole issue and he has found that the negative relationship between foreign aid and domestic savings (and economic development) may indicate at the most a negative correlation but not necessarily any kind of causation. He has attributed this to many reasons. Firstly, the way the data on foreign aid are deserved creates its negative association with domestic savings. Foreign aid is often estimated as the difference between domestic savings and total investment. In this kind of accounting, the foreign aid which is provided even for consumption purpose as in the case of food-aid, is treated as domestic savings. This accounting method invariably shows negative association between foreign aid and domestic savings. Secondly, the empirical results are so conflicting that it is very difficult to believe any causality. Thirdly, the specific country analysis has revealed that high inflow of foreign aid was caused by lower savings and lower rate of development. More foreign aid rushed or pressed for in times of economic crisis. Therefore it was obvious from such circumstances, that foreign aid and domestic savings and economic development came to be negatively associated.

Empirically, relating economic growth and foreign inflows, Papanek[7] (1973) substantiated that foreign inflows increases domestic savings through increased growth rate and level of per capita income. But contrary to the earlier studies, he used domestic savings rate as an explanatory variable for the cross country study. He made a regression analysis using the data from 34 countries for the 1950s and 51 countries for the 1960s. He came to the conclusion like earlier studies that there exists a negative relationship between domestic savings and foreign aid.

Levy Victor[8] (1987) study tests the effect of foreign transfer on investment rates in low income countries. The empirical findings are based as cross-country comparisons of aid flows, savings rates and investment rates over period of 6 years (1974-80). The results suggest that savings rates are fairly stable, which aid flows vary and determine investment. The evidence supports the proposition that most development assistance intended for fixed capital formation is indeed invested. The sustained increase in the aid ratio caused an equal increase in the investment rate.

Levy, Victor[9] (1987) in other article focuses the effectiveness of foreign aid to developing countries on the assumption that aid flows mainly enhance current consumption rather than being channeled into investment. His paper seeks to establish what propensities of foreign assistance is used to finance current consumption. The principal hypothesis to be tested is that aid transfers include very heterogeneous components with different marginal propensities to raise consumption. Estimating the average marginal propensity to consume of all the components of aid, as is commonly done, may lead to erroneous results.

Mosley[10] (1987) in his econometric study of aid/growth link explains the changes in national income as the dependent variable and aid utilisation along with domestic saving and non-concessional foreign finance, as the independent variable, thus linking the three main sources of investment funds. With output changes in a simple Harrod -Domar type of formation. This has been attempted in cross-section studies, which generally show some positive effect of aid oh growth.

SStudies relating to Time-Series :

Chenery and Eckstein[12] (1970) took time series data for 16 Latin American Countries for the years 1950-65; and found the relation between domestic savings and foreign capital inflow was negative in twelve cases. They also argued that aid has been substituted for savings and there is a fall in rate of savings and no increase in the overall rate of growth of GNP.

Chenery and Strout[11] (1966) in their paper first outlines a theoretical frame work designed to analyse the process of development with external assistance in quantitative terms. This frame work is used to evaluate the performance of the developing countries to assess their future needs for assistance under various assumption. Their statistical analysis is based on the period 1957-62. Their study includes 50 countries which account for 90 percent of the GNP of the under developed world. The data are more reliable for 31 countries only. They have adopted a uniform statistical procedure that is applied to all 31 countries. The main features of the statistical procedure are as follows :

1. All estimates were made from linear trends fitted to time series for the period 1957-62. Marginal saving rates, marginal import rates and marginal capital output ratios were computed directly from these trends.

2. The magnitude of the absorptive capacity parameter is indicated by the highest compound growth of investment for any five year period in the past decade. The growth of investment observed for 1957-62 is often well below this limit because development has been constrained by other factors.

3. Trend values for 1962 of the investment saving and import ratios to GNP are computed as a basis for future projections. The evaluation suggests a range of practical possibilities for accelerating growth through external aid. The comparative analysis suggest some international standards of performance which might facilitate the planning and execution of program of foreign assistance.

Paul Bowles[12] in his paper, constructed a time series from 1960-81 for 20 LDCs. The aid figure he used is net disbursement of concessional assistance by DAC countries and multilateral agencies combined. In the 9 of the 20 countries a significant relationships between domestic savings and aid inflows didn't exist. In three of these nine countries simple regressions of the savings rate on aid revealed significant negative correlation but nothing can be inferred about causality from these correlation's. In the other 11 countries atleast one of the 4 equations for each country indicated that a significant causal relationship existed. The causal relationship between foreign aid and domestic savings are not universal and even if they do exist in certain countries, the direction of causality is likely to be influenced by the share of aid from bilateral and multilateral sources.

Rana and Malcolm Dowling[13] (1988) the main objective of their study was to develop a simultaneous equation system to examine the effect of foreign capital on growth of a sample of 9 Asian developing countries for the period 1965-82. He took simultaneous equations because integration of the growth rate and the saving rate in a single model yields results which are richer than those reported in single equation model. The major findings of their paper are foreign capital flows have made a positive contribution to growth of Asian developing Countries. It only contributed by aiding in capital formation. Export performance, growth of the labour force and domestic saving rate have also contributed **favorably to** growth.

Studies relating to India :

VKRV Rao and Dharm Narain's[14] (1963) book is a case study which **presents a** synoptic picture of the changing character of aid over the two plan **period** in India. It highlights the association between growth in the volume of aid **and** increase in share of bilateral as well as of that part of aid tied **to purchases** in the donor country in total aid, while dealing with organisational aspects of aid operations, it throws light on such questions as how is the need for aid formulated? what are the channels through which it is given and received? what are the existing arrangements for the machinery for the repayment of aid as also for the utilisation of counter part funds.

Dr. Sudhakanta Mishra [15] (1965) in his book " Foreign aid to India " emphasis the importance of aid to India. According to his ideas interest in foreign aid is now as wide-spread as the interest in economic development itself. This is partly because without foreign aid the resources which under developed economies can provide for investment would be both quantitatively as well as technologically quite insufficient. This is not to suggest that UDCs have any proportional privileges or rights in the resources of the richer countries. But it does mean that just as acute income inequalities cannot be viewed with approval within a country, they cannot be justified on the wider plane of the world economy as well. Like most UDCs, India has naturally benefited from this changed context. In fact international assistance to India has been far more considerable than to many other countries similarly placed. The author presents here an account of the details of foreign aid to India from some important sources. He has tried to incorporate the latest available information in his details and presented them in any easily comprehensive form of the average reader. He also refers to the qualitative aspects of foreign aid to India and makes suggestions about how we can make that aid a more effective tool for our economic development.

Stanley Katz[16] (1969) used the data on income, savings and investment in India for the period 1950-61. He arrived at the conclusion that aid generated share of savings is insignificantly both in terms of increase in savings and total volume of savings.

Pandya[17] (1974) used the same methodology of Katz, for the period 1961-71 and come to the conclusion that aid contribution in generating savings is insignificant. But these two studies failed to explain why such an insignificant relationship exists between foreign aid and domestic savings.

R.K. Sharma[18] (1974) paper on "Costs and benefits of foreign aid " examines the benefit repercussions of expanding borrowing operations, practiced by the government of India since independence, on exports, national income, savings, availability of net aid, government revenue and volume of indebtedness. The paper is divided into 3 parts. The first part discusses the role played by the foreign aid in India's economic development. The second part discusses how foreign aid (especially tied aid) has affected the direction of India's foreign trade and foreign aid has affected India's composition of investment. The third part deals with the economic costs imposed by foreign aid on the Indian economy. Foreign aid imposes not only economic costs but also social and political costs. The paper, however, is concerned with the economic costs only. The analysis reveals the serious external debt problem created by foreign aid. The various indicates of debt - servicing obligation clearly reveal this and in the light of India's capacity to repay, put severe strain on the economy.

The main objective of R.K.Sharma[19] (1977) study is to analyse the terms and conditions of foreign aid to India from 1949-75. He calculated the grant element of both bilateral and multilateral aid given to India during this period, and he also made a comparison of the terms and conditions of aid received by India from different sources. Moreover, he examined how the different forms of aid - tying affected the rates of utlisation of authorised foreign aid to India, industrial capacity in the country and the pattern of India's foreign trade. The impact of the terms and conditions of foreign aid on the balance of payments of the country, the problem of reverse flow and the benefits and costs to the Indian economy have all been taken up for consideration in this study. He has put forward suggestions for the modification of the terms and conditions of aid so that India can deserve the maximum benefit from the foreign aid which it receives without seriously damaging the interests of the donor countries.

Ghanshyam Das[20] (1977) in his thesis examines two ancillary but interrelated questions and these are (1) Did India receive the high quantum of foreign aid in her plans in the past ?(2) How far the financial character and composition of external assistance flow were conducive to an accelerated progress towards a steady growth? India's economic development is taken as a test case, for she has received a fairly large sums of public international capital in absolute terms (though not on a per capita basis) in her plans with the explicit objective of sustaining 5 to 6 percent rate of growth in the post perspective plan period without resort to net external borrowing.

Econometric studies of aid to India, however, take a different task using investment as the dependent variable and aid (along with various government budget indicators and sometimes the level of national income itself) as the independent variable. For e.g. Chaudhuri[21] (1978) tested an equation of the form $I_t = A + b Y_t + C$ at where I is investment, Y is net national product and A is gross utilised aid (including a small but unspecified amount of concessional finance with a grant element too low to constitute aid) minus food aid. Here food aid was excluded on the grounds that it was not intended to finance public investment. The analysis suggests that aid had a fairly strong positive effect on the level of investment.

Vathsala Mani[22] (1978) made a unique attempt to study the impact of foreign capital in the economic development of a backward, over-populated export oriented economy by identifying the short comings of the traditional explanation of internationals capital movement and attempting at a more rational one. While examining the case of India historically, it studies the impact of foreign capital on the economy from an exclusive economic perspective. In other words, it focuses on features of the economy which have a close bearing on its capacity to absorb the inflow of foreign capital. The enquiry, therefore concerns the question whether even in the absence of the partisan policy of the British government in favour of British industries, the Indian economy could at all have responded to induction of foreign capital.

Thimmaiah[23] (1979) has supported the negative relationship between domestic savings and foreign aid in Indian context for the period 1961-71. He used multiple regressions analysis. He also used lagged analysis to test whether there is any influence if not causation of foreign aid on domestic savings in India. He examined the influence of foreign aid actually utilised both loans and grants separately along with the influence of per capital disposable income rate of growth of government taxation (both direct and indirect taxation separately) and short term interest rate on the domestic savings. He concluded that foreign aid in grants and loans discourage domestic savings of the aid recipient countries. His study did not recognise gross net foreign aid as two different concepts. In order to get good relationship between domestic savings and foreign aid, net foreign aid must be taken into account as it is productively used.

Mangat Ram Agarwal[24] (1980), the purpose of his paper is to measure statistically the impact of foreign capital inflows and changes in the price level over a period of time on the aggregate domestic savings and it various components and economic growth in developing countries particularly in India during the period 1960-1976, A sample of 23 countries from the regions of Latin America and Asia is chosen for the study. The study finds that aggregate domestic savings in developing countries in general and aggregate domestic saving, house and private sectors in India are inversely related to foreign capital flows. The association between foreign capital inflows and the rate of growth of domestic product of India is found to be insignificant. The change is the prices as a variable has a positive but statistically insignificant regression co-efficient in estimated equations revealing that the inflationary trends in India have not influenced the propensity to save the different sectors, though there may be flight from the currency effect i.e., the holding of real assets rather than assets fixed in nominal value.

Kalipada Deb[25] (1982) in his study attempts to examine, how far the use of foreign resources are responsible for the misdirection, inefficiencies and corruption in our development efforts. It looks into the resource base of the country and the development aimed at the balance of socio-economic and political forces and distortion of plan priorities and the strengthening of foreign powers grip on the economy for an unending exploitation. The study explores, for the first time, the systematic approach involved in foreign private investment, technical collaborations and foreign aid for developing the country's dependence. The contribution of the bureaucrats, policy makers and the domestic business houses in this process have also been analysed. The aim of this work is to look into the experience of India, the largest of the developing countries in such a type of development. It goes specifically, into the questions like: who are the beneficiaries ? who bore the burden of development ? How maximum exploitation made possible? What was the role of national bourgeoisie played? there ε e some piece meal works looking into certain aspects of cost and export earnings, foreign aid, private investment etc. , but there has been any comprehensive analysis looking into the whole gamut of problems and costs in a systematic manner. The author concludes the utilisation of foreign aid was a very slow process, and this contributed greatly to delay in development and increased cost. The delays were, of course, caused by foreigners and the Indian administration.

The most elaborate recent attempt is Rubin [26] (1982). He regressed Indian Public Sector gross fixed Capital formation on foreign aid inflows and an array of other variables - government consumption, agricultural output and domestic and foreign inflation. His definition of aid was similar to that of Chaudhari's in that it excluded food aid, but his figures were net, rather than gross of repayments and deflated (by a US Producer Price Index) to a 1970 price base. According to his results he comes to a conclusion that aid does not simply 'finance' projects, in the sense that it provides for expenditures that would not have been under taken otherwise — foreign aid appears to be much a subsidy to maintain reserves as a way of financing new spending. New aid meant new public investment. Any excess of investment over saving is financed by aid, other foreign inflows, or depletion of foreign-exchange reserves.

Badri Narayanan[27] (1988) has treated foreign aid (utilised) as distinct from foreign capital. The main focus in his paper is on foreign aid at every stage of analysis to bring out the necessary correlation between domestic savings and aid inflows. He used time series data for the period 1961-81 and multiple regression analysis. The results in his study shows that foreign aid and terms of gross and net aid and domestic savings are negatively related. In both the cases, logged and non-logged analysis, the results are consistent and significant. The effect of loans component of foreign aid on domestic savings is significantly negative. These results were also reinforced when other explanatory variables of domestic savings like exports and GNP were incorporated into the analysis. At a disaggregated level, the findings of the study show that there is a negative relation between government savings and gross and net inflow of aid.

Howard White[28] (1992) (The Macro economic impact of development Aid ! A critical survey) is of the view that the early literature explained aid's macro economic impact in the context of the dual gap model showing a clear link between aid and growth. Many now believe that the empirical evidence shows there to be no such relationship. This paper critically reviews the different theoretical perspectives - the dual gap model, the savings debate, recipient fiscal response, and aid as Dutch Disease - and the empirical debates an aid, savings and growth. The basis for denying a relationship between aid and growth is shown to be weak though more recent areas of research offer promising directions for future work. Aid effectiveness is assessed against the rhetoric of recipient and donor governments that its objective is to increase the welfare of the population of the recipient nations. The impact of aid on the level of national income and the growth and distribution of that income is taken as the main indicator of aid's impact. The sizable literature on aid effectiveness may divided in various ways but the most important distinction is that between micro-economic evaluation of projects and macro economic assessments of aid impact. This article is concerned with latter of these.

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Chapter - III

Extent of Aid in Developing Countries

In this Chapter an attempt is made to understand the various forms of aid in general and the extent of aid to the developing countries in particular. Data for this chapter are drawn from Global Development Finance 1997 (Previously Known as Debt Tables), World Economic & Social Survey 1995 ,1996, World Development indicators 1997, Trade and Development Report 1995 and other World Bank Publications .

FORMS AND SOURCES OF AID :

External assistance is a generic term signifying the present context transfer of human and financial resources. This transfer takes place in different forms. The various types of aid are defined under the following heads.

ECONOMIC. TECHNICAL. AND MILITARY AID :

' Technical " aid being intended to raise output by changing methods of production, while " economic " aid is intended to raise output by increasing the supply of capital in the recipient country[1]. The " Military aid " is given for building military potential either for mutual defence or for aggressive expansion[2].

BILATERAL Vs. MULTILATERAL AID :

Aid can be bilateral or Multilateral. If an aid agreement is entered into between the Government of a developed country and a developing country, it is bilateral[3]. It is tied rather than untied, and it serves objectives far more complex than an international redistribution of income or of the scarce resources **required** for development. While multilateral aid is administered by International Organisations like IMF, IDA and IFC etc., and financed by assessments of **the** capacity to contribute on the part of the richer nations. It is also felt that aid should not be tied to procurements in the donor country nor inspired by hopes of any returns whether in the form of political or economic advantage of donors[4].

PROJECTS Vs. PROGRAMME AID :

The most important difference among methods of aid administration lies in the choice between individual projects or overall programmes as the basis for allocating and controlling aid. The project approach takes a single plant or other unit of investment as the basis for analysis and aid decisions. The programme approach is based on the analysis and needs of the whole economy*.

DEVELOPMENT AND MAINTENANCE AID :

Development Aid may be defined as the quantity of foreign aid needed for expanding the capital base of the recipient country while maintenance aid which helps in utilising the capacity already built[6]. All these forms of aid are channeled through International Institutions such as the United Nations, The World Bank and its two affiliates i.e., The International Development Association (IDA) and The International Finance Corporation (IFC). Apart from the World Bank and individual donors, Foreign assistance to developing countries also flows from Organisation for Economic Co-operation and Development (OECD) and Organisation of Petroleum Exporting Countries (OPEC). The International Monetary Fund (IMF) is another major supplier of credit to the developing countries. It usually make available short-term money to countries facing balance of payments problems. It also aims at fastening growth in such countries[7].

INTERNATIONAL AID FOR UNDER DEVELOPED COUNTRIES :

The purpose of an international program of aid to UDCs is to accelerate their economic development upto a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. The function of outside capital in **a** development program is not directly to raise standards of living in the **recipient** countries but to permit them to make the transition from economic stagnation to self-sustaining economic growth*. The general aim of aid (Loans, Grants and Technical assistance) is to provide in each UD country a positive incentive for maximum national effort to increase its rate of growth. The increase in income, savings, and investment which aid indirectly and directly makes possible will shorten the time it takes to achieve self sustaining growth. Economic **progress** is measured primarily by increases in income per head over a period of **time, say** one or two five year periods. The over-all aim of development aid is not to equalize incomes in different countries but to achieve steady growth. Aid should continue not until a certain income level is reached in UDCs but only until those countries can moblise a level of capital formation sufficient for self-sustaining growth*.

The decade of the 1960s could be described as one of mutual cooperation in development and management of the world economy, decade of the 70s brought about various contradictions and conflicting perceptions in the process of world development, the decade of the 1990s would be based upon the complex world economic scenarios that have emerged in the 1980s. Weakening of the gap between the developing and developed countries, slowing down of the rate of growth of GDP and world trade, wide fluctuations in the commodity prices and around a falling trend, inadequacies of resource transfer from developed to developing countries all contributed to the growing edge for evolving a new International Economic Order*, persistent stagflation, weak recovery and mounting debt burdens along with the collapse of the world monitoring system, aggravated the world economic scene during the 1980 came to be known as the decade of lost opportunities or lost development. [10]

The experience of developing countries between 1973 and 1983, a period that may known as the " decade of international debt ". The increased reliance of developing countries on international financing appears to have been beneficial, but there is little question that this financing has fallen far short of its potential and in some cases has made borrowing countries worse off.

Concerning about insufficient flows to the LDCs* is expressed in paragraph 109 of the Final Act of UNCTAD VII, and donors are " urged to enlarge substantially financial assistance to the LDCs in a volume and on terms which correspond to their immediate and long term development needs ". LDCs requirements for increased external flows have grown during the second half of the 1980 as their debt situation worsened and rehabilitation and adjustment programme gained momentum.

The world is today ridden with an environment of mutual mistrust and beggar-thy-neighbour attitudes. The spirit of cooperation has been as its lowest ebb thus causing collapse of cooperative endeavours in development. New forms of exploitation are emerging through technological resolutions unfair trading practices and multinationalisation of production and trade[10].

* LDCs refer to a country or countries included in the United list of Least Developed Countries The group consists of 48 countries with a combined population of 380 million are the weakest partners in the international community.

In the new world of the 1990s, the main objective of aid and development policies should be that of helping the developing countries to integrate into the global main stream. This would imply assisting them to implement the programmes of economic reforms that they have launched, and to create a trade and investment environment for them so that their development efforts can be sustained through increased resources flows and foreign exchange earnings. At the same time, the aid and development policies will have to continue to serve their traditional objective of supporting long-term development programmes of building infrastructure and financing projects of substantial social benefit such as investment in rural development, health, nutrition, education and poverty alleviation. These would enhance the abilities of the countries to implement the reform programmes and provide safety - nets for the groups adversely affected by the changes resulting from them. In this way, the new aid and development policies would ensure that the political structure of these countries survive in the face of pressures from vulnerable interest groups affected by the reforms, and that support is generated from other groups who gain from the projects of development[11]. Table 3.1 shows the public and private lending to developing countries. These countries are divided according to the per capita income namely low income and middle income countries. The lending of the financial resources to low income countries during 1975 are $ 6.2 billions and it was gradually increased to $ 19.8 billions in 1986. The disbursements to the middle income countries during 1975 are $38.6 billions which increased to $66.4 billions during 1986(see Graph 3.1).

*New International Economic Order : Descriptive of discussions between the developed and developing countries, e.g. as took place at the conference on International economic cooperation in 1976 at which a prospective New World economic order was debated. The essence of **the** dialogue is whether and to what extent there should be a permanent transfer of resources from developed to developing countries.

Table 3.2 clearly tells us how the net transfer of financial resources loan to various groups of developing countries from 1985 to 1996. Under the various groups given in the table West Asian countries drawn more financial resources than the others. During 1986, the developing countries drawn $11 billion. During 1993 it increased to $ 66.6 billions and again reduced to $ 35.6 billions in 1994. The Least Developed Countries (43 covered out of 48 LDCs) drawn $ 6.5 billions in 1985 and it doubled in 1992 i.e., $ 13.3 billions.

Table 3.3 explains the aggregate net long-term resources flows to developing countries from 1990 to 1996. During 1990 the aggregate net resources flows were $ 100.6 billions it increased to $ 237.2 billions in 1995. With regard to the official development finance during 1990 it was $ 56.3 billions and it declined to $ 53 billions. The total private flows increased tremendously from $44.4 billion to $ 184.2 billions in 1990 and 1995 respectively in the case of Foreign Direct Investment, the flows were $ 24.5 billions in 1990 and it rose to $ 95.5 billion in 1995 (see Graph 3.2 which explains grants are greater than loans).

Table-3.4[a] explains the percentage distribution of financial flows to the developing countries. The concessional loans and grants to the developing countries are gradually increased from 45.8 percent in 1980 to 60.6 percent in 1986. The non-concessional flows to these countries are increased till 1984 and then declining. In the case of LDCs and developing countries, the concessional flows are increased.

Table 3.4[b] clearly explains us regarding the official net flows of development finance to developing countries from 1990 to 1996. The concessional finance during 1990 was $ 43.9 billion and the rate of increase was very slow i.e., $ 45.2 billions in 1995. Regarding the non concessional finance during 1990 it was $

12.3 billion and it declined to $ 7.8 billion in 1995. The table explains us that the developing countries are getting more concessional finance rather than non concessional finance(see Graph 3.3).

The same table 3.4[b] explains that the use of IMF credit in the case of developing countries were $ 0.1 billion in 1990 and it increased to $ 16.8 billions in 1995. Regarding the Technical Cooperation Grants, the developing countries were receiving $ 14.2 billion in 1990 and rose to $ 20.7 billion in 1995.

Table 3.5a &3.5b explains net aid to developing countries as stagnated or declined over the past decade. Measured in constant 1994 dollars, net Official Development Assistance (ODA) by developing countries remained in the range of $ 54 - $ 61 billion during 1986 to 1994. During the same period the share of net ODA in Development Assistance Committee(DAC) members' combined GNP dropped from 0.33% to 0.29%. The lowest level since 1973. This is expected to decline further in 1995 to about 0.27% on an average. This overall decline conceals a change in burden sharing among DAC members, with some, including the US and Italy, reducing their contributions, while Japan has become the largest donors. The reason for decline in aid contribution is due to budgetary problems facing by DAC countries. [12]

Table-3.6 explains the changing pattern of aid. by definition, Official Development Assistance (ODA) must have a grant element of atleast 25%. In recent years many bilateral donors have shifted their Aid Programs away from loans and now onwards all their ODA in the form of grants. Belgium, Denmark, the Netherlands, and the UK have either phased out or greatly reduced their loan programs over the past decade, while others, such as Australia, have maintained an all - Grant program. One reason for the increasing share of grants has been the rising expenditures reported by DAC members on emergency and humanitarian aid and refugee relief. Loans remain important, however, because such countries as France, Japan and Spain which have large concessional loan programs have been rapidly increasing their aid in recent years.

The pattern of aid has also been changing in other ways. Among these changes is the decline in the share of ODA going to multilateral organisations. Almost 35% in the early 1980s, when the Regional Development Banks were rapidly expanding their operations, this share has fallen to about 30% of ODA commitments by DAC donors in 1993-94. Because, contributions to multilateral organisations take the form capital subscriptions or outright grants, the decline in these contributions has effected the distribution of ODA Commitments between Loans and Grants. The proportion of untied aid has increased. Aid i.e., tied obliges recipients to purchase goods and service from the donor country or from a specified group of countries. Partially untied aid allows procurement from the donor country and most developing countries. Untied Aid has no such restrictions. Tying arrangements may be justified on the grounds that they prevent a recipient from misappropriating or mismanaging aid receipts- they may help to keep targeted aid on target. But to the extent that they prevent recipients from obtaining the best value for their money, they reduce the value - and thus the efficiency - of the aid received.[13]

Table-3.7 tells us that the World Bank Group accounted for over half of the multilateral debt outstanding at the end of 1993. While IBRD lending declined, the decline was more than offset by higher IDA loans. By contrast, there has been a dramatic drop in the share of IMF lending, from over 29% in 1980 to 1983 to less than 12% in 1993. As shown in Table-3.6, net transfers from IMF were negative in 1984-93, however, IMF reported positive net transfers over $ 365 million in 1994. The multilateral institutions in particular, the Regional Development Banks have also an important source of financing, they now account for a third of the multilateral debt of the low income countries.

Conclusion :

Thus it can be concluded that the extent of aid in the case of developing countries had increased tremendously during the recent years. The concessional finance to developing countries is increasing while non-concessional finance decreasing during the period 1990-96. The share of aid by DAC countries declined in recent years due to their budgetary problems. The pattern of aid also changing in recent times. Many bilateral donors have shifted their aid programme away from loans and now onwards all their ODA in the form of grants. One reason for the increasing share of grants has been the rising expenditures reported by DAC members on emergency and humanitarian aid and refugee relief.

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Table 3.1

Public and Private lending to Developing Countries, 1975 and 1980-86

(billions of dollors)

Country group and item.	1975	1980	1981	1982	1983	1984	1985	1986
Low-Income **countries**								
Disbursements	6.20	11.30	10.40	11.00	10.30	10.50	11.40	19.80*
From private Creditors	**1.60**	3.40	3.00	3.50	3.00	3.30	3.40	1000*
Principal repayments	1.40	2.50	2.50	2.70	3.10	3.30	4.40	6.80
Net inflows	4.80	8.80	7.90	8.30	7.20	7.20	7.00	13.00
Middle Income Countries								
Disbursements	3860	90.20	111.60	105.60	87.60	77.00	67.60	66.40
From private Creditors	28.20	71.00	88.80	82.30	63.20	52.60	46.70	43.40
Principal repayments	13.50	40.70	43.80	45.00	40.40	43.40	49.00	53.80
Net inflows	25.10	49.50	67.80	60.60	47.20	33.60	18.60	12.60
All Developing Countries (Low and Middle)								
Disbursements	44.80	101 50	122.00	116.60	97.90	87.50	79.00	86.20
From private Creditors	29 80	74.40	91.80	8580	66.10	55.90	50.10	53.50
Principal repayments	14.90	43.20	46.30	47.70	43.50	46.70	53.40	60.60
Net inflows	29 90	58.30	75.70	68 90	54.40	40.80	25.60	25.60

* Largely reflects increase lending to China

Source : World Development Report, 1987 p. 18,

Note : Data for 1985 and 1986 are provisional estimates of amounts paid, not amounts due
Private non-guaranteed debt has been estimated where not reported by a country.
Official grants are excluded. Data are based on a sample of 90 developing countries.

TABLE 3.2

Net Transfer of Financial Resources of Groups of Developing Countries, 1985-1995[a]

(billions of dollqrs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Africa of which	-7.40	2.10	-3.30	3.50	0.40	-10.80	-6.40	-1.40	1.30	6.30
Sub-Saharan Africa	3.10	6.00	6.00	7.80	6.30	8.10	8.70	10.80	8.70	6.60
Latin America's the Caribbean	-30.60	-11.90	-18.10	-21.80	-27.30	-27.10	-8.90	8.40	14.30	6.40
West Asia	18.30	34.40	22.10	27.30	19.10	4.30	51.90	39.80	34.30	17.20
Other Asia of Which	4.10	-11.10	-29.90	-18.20	-11.00	-8.60	-7.20	-7.30	9.10	0.80
China	12.50	7.40	-0.30	4.10	4.90	-10.70	-11.60	-5.00	11.50	-7.60
Four Exporters of Manufacture*, [d]	-12.10	-22.70	-3.00	-26.40	-21.70	-11.50	-7.10	-8.60	-12.60	-13.00
All Developing Countries	-17.60	11.00	-32.70	-16.60	-24.70	-38.50	30.10	38.70	66.60	35.60
Memorandum items	-17.30	-4.10	-34.00	-32.40	-29.70	-28.10	-5.20	14.20	47.30	35.60
Samples of 93 countries[e] of which										
[f] Least Developed Countries	6.50	7.70	7.80	9.20	9.40	11.20	11.50	13.30	11.70	10.20

Source: World Economic and Social Survey 1996, P.70, UN

a. Expenditure basis (Negative of bops on goods, service and private transfers
b. Preliminary Estimates
c. Excluding Nigeria and South Africa
d. Hong Kong, Republic of Korea, Singapore and Taiwan province of China
e. Ninety-three capital importing countries for which sufficient data are available.
f. Covering 43 out of the 48 least developed countries.

Aggregate net long-term resource flows to developing countries, 1990-1996

(billions of US dollars)

Type of Flow	1990	1991	1992	1993	1994	1995	1996'
Aggregate net resources flows	100.6	122.5	146	212	207	237.2	284.6
Official Development Finance	56.3	656	55.4	55	45.7	52	40.8
Grants	29.2	37.3	31.6	29.3	32.4	32.6	31.3
Loans	27.1	28.3	23.9	25.7	13.2	20.4	9.5
Bilateral	11.6	13.3	11.3	10.3	2.9	9.4	-5.6
Multilateral	15.5	15	12.5	161.3	10.3	11.1	15
Total private flows	44.4	56.9	90.6	44.7	161.3	184.2	243.8
Debt flows	16.6	16.2	35.9	11	44.9	56.6	88.6
Commercial Banks	3	2.8	12.5	29.3	-0.3	26.5	34.2
Bonds	2.3	10.1	9.9	4.6	35.9	28.5	46.1
Others	11.3	3.3	13.5	83.7	9.2	4.6	8.3
Foreign Direct Investment	24.5	33.5	43.6	32.7	67.2	83.7	109.5
Portfolio equity flows	3.2	7.2	11	45	32.7	32.1	45.7

Note : Developing countries are defined as Low and Middle Income countries with 1995 per capita incomes of less than $ 765 (low) and $ 9385 (middle) a preliminary

Source : Global Development Finance 1997, Ch.I, World Bank p.3.

Table 3.4a

Total External Resource Receipts of Developing Countries

(in percent)

Assistance	All developing countries						
	1980	1981	1982	1983	1984	1985	1986
Concessional Grants of which	45.80	38.10	39.70	45.90	40.10	73.80	60.60
DAC	30.00	25.30	28.10	33.00	30.40	57.30	46.50
Bilateral	20.90	18.00	**19.90**	23.20	21.50	4060	33.80
Multilateral	9.10	7.30	8.20	9.80	8.90	16.80	12.70
Grants	20.50	16.90	18.70	22.70	21.60	42.00	33.40
Loans	9.60	8.40	9.40	10.30	8.80	15.30	13.10
Technical Assistance	9.00	780	8.60	10.70	9.40	17.30	13 80
Other	**21.10**	17.60	19.50	22.30	21.00	40.00	32.60
OPEC	11.30	8.60	6.80	7.20	4.80	7.00	6.10
Bilateral	11.00	8.20	6.50	6.80	4.60	6.60	6.00
Multilateral[b]	0.30	040	0.40	0.40	0.20	0.30	0.20
Grants	5.00	360	3.50	340	**4.10**	5.40	540
Loans	640	5.00	3.30	380	0.70	1.50	0.70
Non-concessional flows of which	54.20	61.90	60.30	54.10	59.90	26.20	39 40
DAC	54.60	62.20	60.60	54.00	59.00	2530	39.50
Bilateral official	5.50	4.30	6.30	4.80	6.40	8.20	4.00
Multilateral[a]	5.70	5.70	7.50	9.80	9.60	15.00	11.00
Export Credits[c]	13.80	9.20	7.60	6.70	5.30	3.50	-1.60
Direct Investment	12.50	16.90	13.90	12.60	13.20	12.60	16.90
Others[d e]	17.20	26.10	25.10	20.20	24.40	-14.10	920
Total financial flows	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source : The least developed countries report 1980, United Nations, New York, 1989

a. From multilateral agencies mainly financed by DAC member countries
b. From multilateral agencies mainly financed by OPEC member countries.
c. Guaranteed private.
d. Bilateral financial flows originating in DAC Countries and their Capital Markets in the form of bond lending (either directly or through syndicated " Euro-Currency Credits")
e. Only flows allocated by individual reciepient country.

TABLE 3.4b

Official net flows of development finance, 1990-1996

(billions of U.S. dollars)

Category	1990	1991	1992	1993	1994	1995	1996[a]
Official Development Finance	**56.3**	**65.60**	**55.40**	55.00	**45.70**	**53.00**	**40.80**
Concessional Finance	**44**	**53.20**	**46.10**	43.50	**46.70**	**45.20**	**44.40**
Grants	**29.2**	37.30	31.60	29.30	**32.40**	32.60	31.30
Loans	14.8	15.90	14.60	14.20	**14.30**	12.60	13.10
Bilateral	**8.7**	9.20	7.40	7.30	**6.00**	**4.80**	**4.80**
Multilateral	**6.1**	6.70	7.20	6.90	**8.30**	**7.80**	8.30
Non-concessional finance	**12.3**	**12.40**	9.30	11.70	**-1.10**	**7.80**	**-3.60**
Bilateral	**2.9**	**4.10**	3.90	3.30	**-3.10**	**4.60**	**-10.40**
Multilateral	**9.4**	8.30	5.40	8.40	**2.00**	**3.20**	6.80
Memo Items							
Use **of IMF credit**	**0.1**	3.20	1.20	1.60	**1.60**	**16.80**	0.60
Technical **Cooperation Grants**	**14.2**	15.70	17.90	18.50	**17.40**	20.70	20.00

Note: Official Concessional finance comprises inflows of official development assistance (excluding technical cooperation grants) and official aid to Eastern Europe and the former Soviet Union Memo items are not included in preceding aggregates.

*. Preliminary

Source : Global Development Finance 1997, Ch.I, World Bank p.8.

Net flows to Part-I Countries	Net Official Development Assistance							Aid Appropriations	
	$ millions		% of GNP		Annual avera change in vol	Per capita of donor country		% of Central Government Budget	
						$	$		
	1990'	1994	1990ª	1994	1989-90 to 1994-95ª.b	1990ª	1994	1990'	1994
Australia	955	1091	0.34	0.34	25.00	56	61	1.30	1.20
Austria	394	655	0.25	0.33	9.30	51	82	0.50	
Belgium	889	726	0.46	0.32	-3.90	89	72	1.20	
Canada	2470	2'250	0.44	0.43	-0.60	93	77	2.00	1.40
Denmark	1171	1'446	0.94	1.03	3.30	228	277	2.90	2.30
Finaland	846	290	0.65	0.31	-14.50	170	57	2.60	1.00
France	7164	8'466	0.6	0.64	0.80	126	146	2.20	
Germany	6320	6'818	0.42	0.34	-0.90	79	83	2.40	1.90
Ireland	57	109	0.16	0.25	17.40	16	30		0.60
Italy	3395	2705	0.31	0.27	-9.70	59	47	0.80	0.50
Japan	9069	13'239	0.31	0.29	0.20	73	106	1.20	1.30
Luxembourg	25	60	0.21	0.4	14.40	67	153		1.20
Netherlands	2538	2'517	0.92	0.76	-0.80	170	165	2.70	3.10
New Zealand	95	110	0.23	0.24	2.70	28	31		
Norway	1205	1'137	1.17	1.05	1.10	284	261	2.20	1.90
Portugal	148	308	0.25	0.35	8.30	15	31		
Spain	965	1'305	0.2	0.28	10.10	25	32	0.50	0.90
Sweden	2007	V819	0.91	0.96	-1.80	235	207	2.80	2.60
Switzerland	750	982	0.32	0.36	3.00	110	140	3.30	3.00
United Kingdom	2638	3'197	0.27	0.31	1.80	46	55	1.20	1.20
United States	11394	9'927	0.21	0.14	-4.40	46	38	0.70	1.40
Total or average	52961	59'156	0.33	0.3	-0.90	69	73	—	—

a Data for 1990 include forgiveness of non-ODA debt by the following countries: France (S 294 million), Japan (S 15 million), the Netherlands (S 12 million). Sweden (S million). the United Kingdom (S 8 million), and the United States (S 1.2 billion) Debt forgiveness is not reflected in the total Par-! Low Income Countries

Source :World Development Indicators 1997. p 306.

Net flows to Part-I Countries	Net Official Development Assistance							Aid Appropriations	
	$ millions		% of GNP		Annual average */• change in volume	Per capita of donor country		% of Central Government Budget	
						$	S		
	1990[a]	1994	1990[a]	1994	1989-90 to 1994-95[a b]	1990*	1994	1990*	1994
Australia	6	4	0	0	-6.1	0	0		
Austria	84	261	0.05	0.13	22	11	33		
Belgium	21	86	0.01	0.04	29.7	2	9		
Canada	11	73	0	0.01	47.9	0	3		
Denmark	15	37	0.01	0.03	18.8	3	7		
Finaland	17	51	0.01	0.05	30.9	3	10	_	
France	76	650	0.01	0.05	51.6	1	11		
Germany	1'014	2'527	0.07	0.12	17	13	31		
Ireland	S	16	0.01	0.04	27.5	1	4		
Italy	128	196	0.01	0.02	11.1	2	3		
Japan	153	247	0.01	0.01	1.8	1	2		
Luxembourg	1	7	0.01	0.05	51.3	2	18		_
Netherlands	62	118	0.02	0.04	11.7	4	8		
New Zealand	0	1	0	0		0	0		
Norway	21	79	0.02	0.07	32	5	18		
Portugal	4	29	0.01	0.03	44.5	0	3		
Spain	24	157	0	0.03	47.2	1	4		
Sweden	2	91	0	0.05	112.3	3	10		_
Switzerland	9	124	0	0.05	644	1	18		_
United Kingdom	2S9	293	0.03	0.03	2.4	5	5		_
United States	m	2'422	0.01	0.03	454	1	9	-	-
Total or average	2'248	7'468	0.01	0.04	24.4	3	9	—	-

a. Date for 1990 include forgiveness of non-ODA debt by the following countries: France ($ 294 million), Japan ($ 15 million), the Netherlands ($ 12 million), Sweden ($ million), the United Kingdom ($ 8 million), and the United States ($ 1.2 billion). Debt forgiveness is not reflected in the total. Part-II Middle Income Countries.

b. At 1994 exchange rates and prices

Source :World Development Indicators, 1997 p.306

Financial terms of official development assistance commitments

Country	Grants		Loans								United aid	
	% of total ODA		Grant element		Maturity		Grace period		Interest rate		% of total ODA	
			%	%	Years	Years	Years	Years	%	%		
	1980	1994	1980	1994	1980	1994	1980	1994	1980	1994	1980	1994
Australia	100	100									45.5	35.8
Austria	57	73	33.1	52.7	15	24	5	8	5.1	2.9	0.4	-
Belgium	89	95	83.1	84	30	30	11	11	-		14.7	
Canada	87	95	80.8	90.3	44	40	9	16	0.7	-	6	27.3
Denmark	81	100	83.7	.	38	.	9	.	-	-	29.5	-
Finaland	95	99	52.2	28.7	18	37	7	1	2.1	6.4	13.2	24.6
France	70	82	47.3	54.3	24	24	8	9	3.6	2.9	50.8	40.7
Germany	67	80	61.7	57.9	33	29	9	9	2.4	2.4	45.9	29.7
Ireland	100	100	-	.	.	-	.	.	-	-	-	-
Italy	98	91	30.6	72.2	13	27	4	11	3.8	3.8	2.3	35.9
Japan	40	51	56.2	64	28	29	9	9	2.9	2.9	13.2	65.3
Luxembourg	-	100	-	-	-	.	-	-	-	-	-	-
Netherlands	79	100	59.6	48.9	30	25	8	7	2.4	2.4	34.1	80
New Zealand	99	100	-	-	-	-	-	-	-	-	31.7	-
Norway	100	99	-	34.6	-	8		2		-	41.6	56.7
Portugal	-	100	-	-	-	-	-	-'	-	-	-	63.6
Spain	-	-	-	74.8	-	31	-	11	-	-	-	-
Sweden	99	100	29.5		14		7	.	5.5	5.5	65.8	19.2
Switzerland	92	100	75.5		20		10		.	-	55.4	71.3
United Kingdom	94	100	47.4	-	23		6	-	4.2	4.2	15.3	22.5
United States	73	99	66.4	58	37	27	10	7	2.7	2.7	20.8	-
Total	73	80	59.2	62.4	31	28	9	9	2.8	2.1	486.2	43.7[a]

Source :World Development Indicators 1997, p.308.

a. Estimated average of figures reported above

TABLE 3.7
Net Transfers from Multilateral Financial Institutions to Highly Indebted Low-Income Countries
(Millions of dollors)

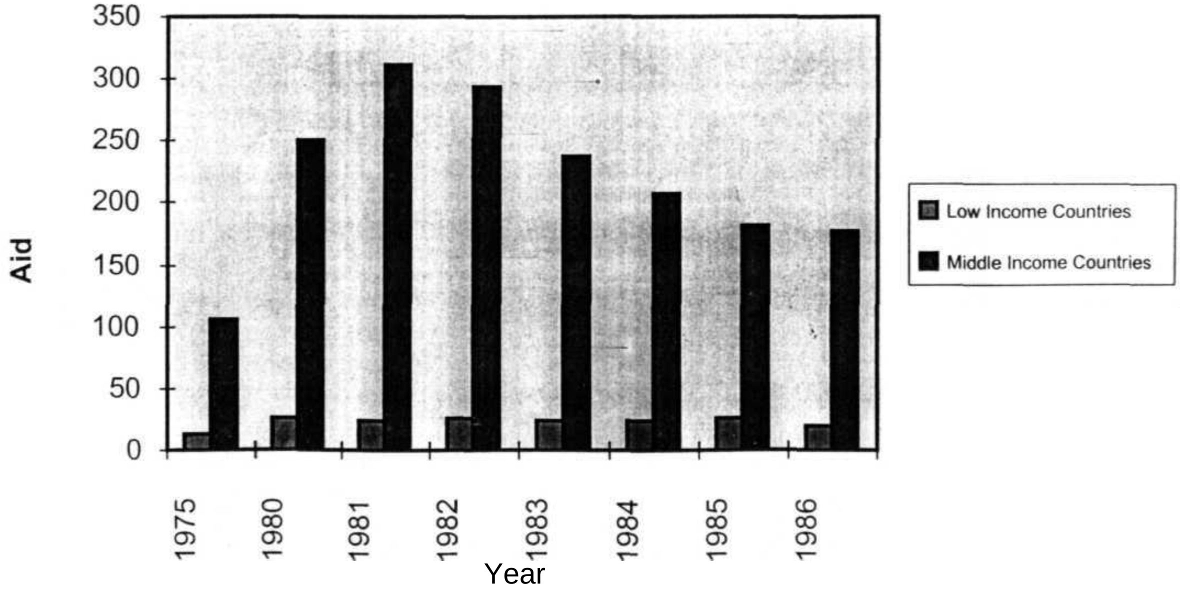
Year	Total	World Bank Group		IMF	Other Multilaterals
		Total	IBRD		
1980	2188	605	135	789	794
1981	2740	628	54	1332	780
1982	2130	944	245	502	685
1983	2549	927	268	842	781
1984	1475	1019	265	-64	521
1985	889	812	-16	-437	514
1986	1282	1294	-4	-828	816
1987	1340	1515	-108	-836	661
1988	1307	960	-738	-427	775
1989	1435	1267	-394	-623	792
1990	1745	1314	-658	-458	890
1991	1266	444	-1498	-165	987
1992	1886	869	-1092	-232	1249
1993	1220	789	-1219	-369	800

Source : Trade and Development 1995 Debtor Reporting System.

Graph - 3.1

Public and Private Lending to Low and Middle Income countries

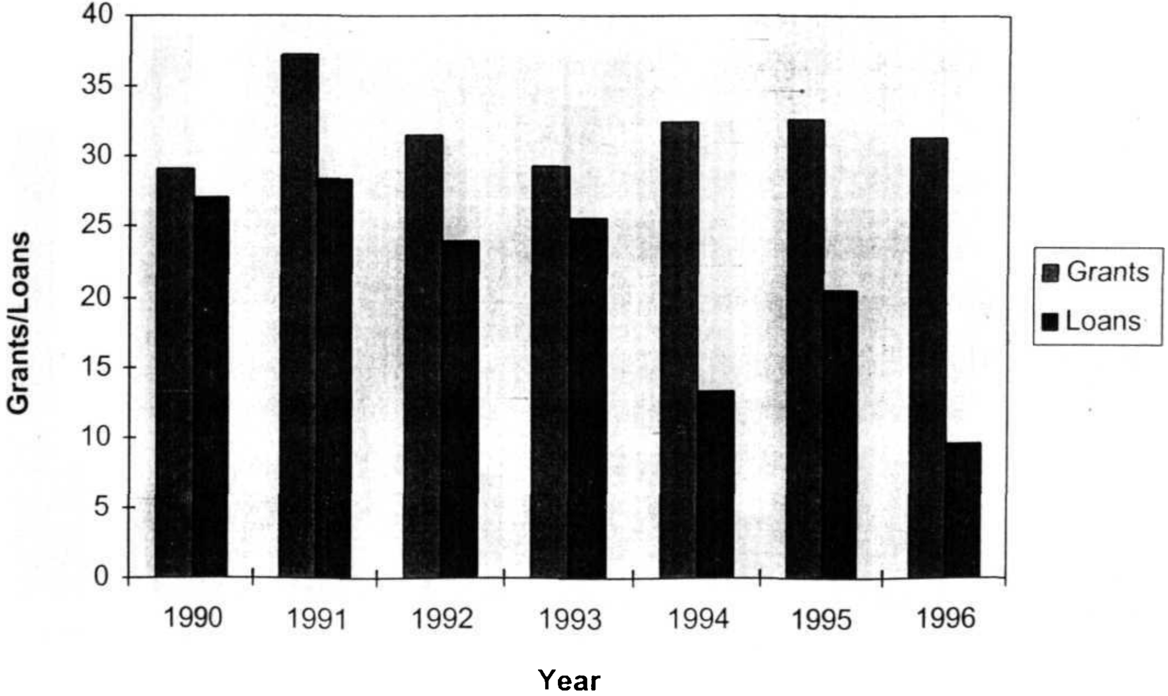
(billions of dollars)



Graph - 3.2

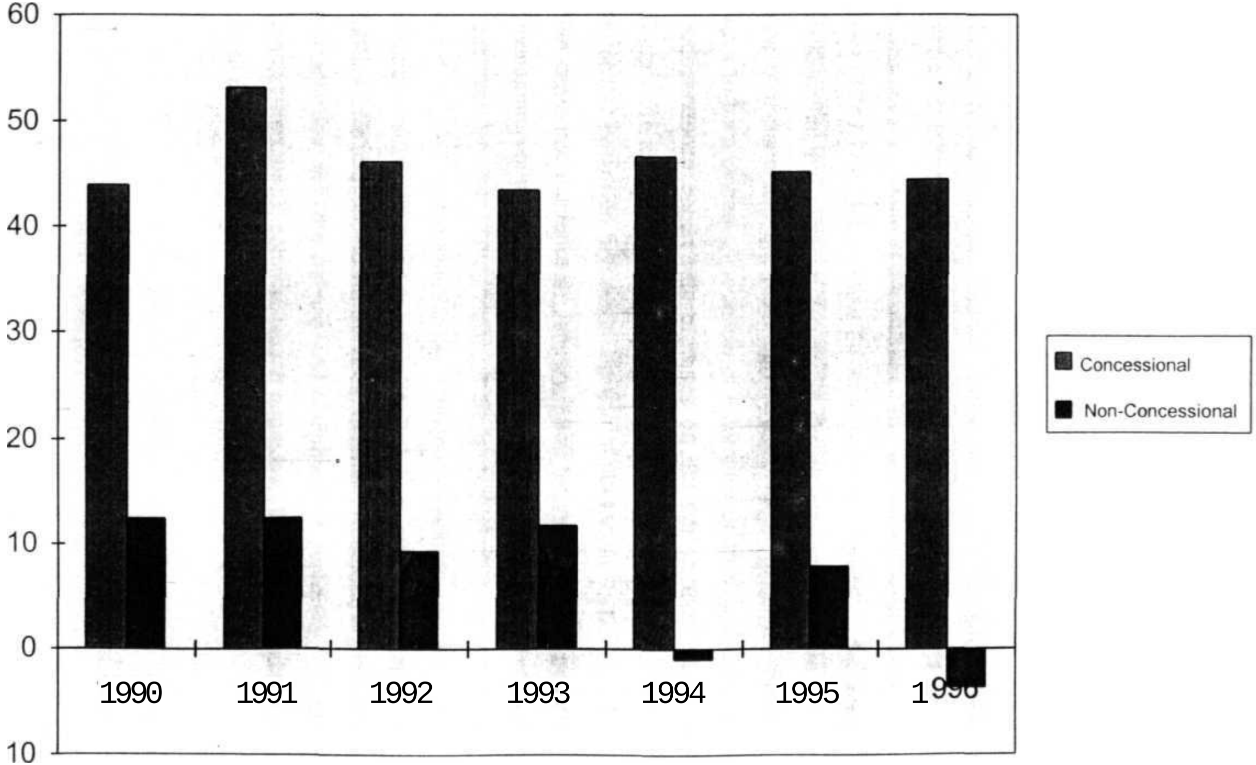
Loans and Grants to Developing Countries

(billions of US $)



Graph - 3.3

Concessional and Non-concessional Finances to Developing Countries (billions of US $)



CHAPTER IV

Foreign Aid to India

In the case of Indian economic development, there was a sort of ideological and psychological barrier to the use of foreign aid in the pre-war period. In the post-war period, one finds a change in the attitude. The Industrial Policy Resolution of Government of India in 1948 opened the door to foreign capital[1]. But there was one condition, that major interest, ownership and effective control were to be in the hands of Indians and adequate opportunities for training the Indian personnel were to be provided. The inflow of external economic assistance in India after independence began with drawings on the IMF in early 1948 to provide for hard currency needs. Later in 1949, the World Bank made its first loan to India for the expansion and modernisation of the Indian Railways. The Colombo Plan came into existence in January, 1950 for industrial and general economic development of the south and South East Asian Countries. This plan came into operation on 30th June, 1951. India is one which received large amount of aid through Colombo Plan for her economic development (A council for technical cooperation with head quarters in Colombo, offers assistance in planning, Public Administration, Health Services, Scientific Research Agricultural and Industrial activities, and the training and equipment of personnel. Funds come from the assisted areas, common wealth countries, the United States and the International Bank for Reconstruction and Development[2]).

Foreign Aid during the Planning period:

First Five Year Plan (1951-56) :

The first plan had a two fold objective to correct the dis-equilibrium in the economy caused by the second world war and partition of the country and also to initiate. Simultaneously a process of increase in the national income and steady improvement in living standards. Keeping in view large-scale imports of food grains in 1951 and inflationary pressures on economy, the plan accorded the highest priority to agriculture including irrigation and power projects[3].

The Indian Government, from the inception of the first plan it relied on external resources. Although the bulk of resources needed for development has been generated indigenously, external assistance, apart from technological help, has also been a factor responsible for relieving pressures on internal resources as well as for balance of payments in the wake of rising investment levels[4].

The total external assistance authorised during the first five year plan was Rs. 381.70 crores (see table 4.1). Out of which Loans and Credits constituted Rs. 226.80 crores, Grants Rs. 138 crores and Commodity assistance comprises of Rs. 16.90 crores. Out of the total authorisation the amount actually utilised was Rs. 201.70 crores [see graph - 4.1] The total aid utilised in the form of loans and credits was Rs. 126.40 crores, grants Rs. 70.20 crores and commodity assistance Rs. 5.10 crores. Thus the loans and credits constituted 62.70 pc of aggregated aid utilisation and the respective share of grant and PL Assistance was 34.80 pc and 2.5 pc respectively. The Government Plan outlay during this plan was Rs. 1,960 crores and total investment is Rs. 3360 crores and the share in plan outlay and total investment were 10.29 per cent and 6.0 percent. The percentage of both the things is very less.[see graph -4.2]

During the first five year plan the main sources of loans and credits are the world bank, the USA and the USSR. The USA, Canada, Australia, New Zealand, UK and Norway were the grant donors[5].

Second Five Year Plan (1956--61) :

In 1954, Parliament declared that the broad objectives of economic policy should be to achieve a (Socialistic pattern of Society) under which the basic criteria for determining the lines of advance would be social gain and greater equality in income and wealth and not private profit. The Second Plan, therefore , sought to promote a pattern of development which would ultimately lead to the establishment of a socialistic pattern of society in India. In particular, it stressed that the benefits of economic development should accrue more to the relatively less privileged sections of society and there should be progressive reduction in the concentration of incomes, wealth and Economic power[6].

During this plan, because of the large scale investment contemplated, increased dependence on external assistance became necessary though the Mahalnobis model contemplated some sort of closed economy where foreign trade sector was almost neglected .And in the middle of the plan there was a foreign exchange crisis, which compelled the government to mobilise the resources from the international agencies like the World Bank[7].

The total external resources flown to India during this plan was Rs. 2519.80 crores and the aid utilised was Rs. 1430.30 crores (see table 4.1 and graph-4.1) of which the loans and credits constituted 50.68 pc of aggregate aid utilisation, grants and PL Assistance constituted 11.23 pc and 38.09 pc respectively. (the authorisation and utilisation of aid are shown in Graph 4.1). In the Second Plan the total plan outlay was increased due to the objective of industrialisation and there by increasing investment level. The total plan outlay was Rs. 4672 crores and total investment level was 6750 crores. The percentage share of both in total aid was 30.61 percent and 21.19 percent respectively (see table 4.2 (a) and graph-4.2).

The number of donors increased from three to eleven in the Second Plan period. They are UK, West Germany, Canada, Japan, Switzerland and three East European countries viz., Poland Czechoslovakia and Yugoslavia. The list of grant donors rose from six to nine, the new additions being West Germany, USSR and Japan[8].

Third Five Year Plan (1961-66) :

The third plan aimed at securing a marked advance towards self-sustaining growth. During this period, India has to face two military attacks, one from Communist China in 1962 and the other from Pakistan in 1965. The import requirement for defence purposes considerably increased. And also the failure of agricultural production to rise commensurably with the needs of a growing population and increasing national income, made it imperative to make a large increase of food aid under US PL 480 programme. Due to all these factors India had to rely on external assistance[9].

The amount authorised during this plan period was Rs. 2891.90 crores. The amount actually utilised was Rs. 2867.40 crores (see table 4.1). The loans and credits constituted 66.54 pc of the total aid utilised grants and PL assistance constituted are 3.7 and 29.76 pc respectively. The total plan outlay during this plan period was Rs. 8577 crores. The total investment was Rs. 10,400 crores. The foreign aid finance 28 percent in the total investment during this plan (see table 4.2(a). The number of donors went upto nineteen under brisk impact of growing recognition of Indian needs. The International Development Association (IDA) the new soft loan agency, made it success on aid arena and so did eight other countries of Europe, viz., France, Italy, Austria, Belgium, Netherlands, Denmark and Sweden. The list of grant donors increased from nine to eleven the additions being Sweden and Czechoslavokia[10].

Annual Plan (April, 1966 to March, 1969):

The situation created by the Indo-Pakistan conflict in 1965, two successive years of severe drought, devaluation of the currency, general rise in prices and erosion of resources available for plan purposes delayed finalisation of the Fourth Five Year Plan. Instead, between 1966 and 1969, three Annual Plans were formulated within the frame work of the draft outline of the Fourth Plan. They took into account the conditions prevailing at that time. The State of the economy and the non-availability of financial resources for plan purposes kept down the size of development outlay during this period[11].

The external assistance authorised during the annual plan period amounted to Rs. 3020.67 crores (see table 4.1). The loans and credits constituted 70 percent of the total aid utilised grants and PL assistance constituted 7.18 percent and 22.87 percent respectively. During three years of annual plans Rs. 6,626 crores were invested in the economy and out of this amount Rs. 3145.70 crores came as external assistance (see table 4.2(a)). The contribution of foreign aid to the total investment during this period was thus 47.48 percent. During Second, Third & annual plans the percentage of foreign aid in total plan outlay and total investment is very high.

The number of donors of loans/credits rose from nineteen to twenty two. The new additions being Hungary, Bulgaria and Norway. The grant donors are Japan and Austria[12].

Fourth Five Year Plan (1969-74) :

The fourth plan aimed at accelerating the tempo of development and reducing fluctuations in agricultural production as well as the impact of uncertainties of foreign aid. It sought to raise the standard of living through programmes designed to promote equality and social justice[13].

Due to the creation of industrial super-structure the economy started growing the domestic saving rate started moving up and correspondingly the dependence on import of consumer and capital goods declined. Therefore the proportion of foreign aid in the total domestic savings and investment started declining. Besides, the foreign assistance in the form of food imports, also ended during the fourth plan period, after the termination of the PL 480 agreement with USA, and consequently the importance of foreign aid in India's development plan came down. At the same time because of the Green revolution food grain surplus started increasing and this pushed up the domestic saving rate to an unusually high level and since Indian export earnings from engineering goods shot increasing the external assistance as a proportion of both domestic savings and Investment declined sharply.

The total aid authorised during this plan period was Rs. 2893.70 crores and the amount actually utilised was Rs. 3145.70 crores (see table 4.1). Thus the loans and credits constituted 90.23 per cent of aggregate aid utilised and grants and P.L. assistance constituted 4.71 and 5.06 per cent respectively. The total plan outlay during the plan was Rs. 15,779 crores and the total government investment was Rs. 22,635 crores and the percentage of share of aid in both plan outlay and investment was 19.29 percent and 13.45 percent respectively (see table 4.2(a)).From 22 sources India received loans and credit till March, 1973. World Bank and IDA are main sources. The grants came from fifteen sources[14].

Fifth Five Year Plan (1974-79) :

The fifth plan was formulated against the backdrop of severe inflationary pressures. Major objectives of the plan were to achieve self-reliance and adopt measures for raising consumption standards of people living below the poverty line. This plan also gave high priority to bring inflation under control and to achieve stability in the economic situation[15].

During this plan external assistance has increased to a larger extent due to hike in Oil prices and some important import items like, fertilizers and food grains. India's balance of payments came under heavy pressure during 1974-75, necessitating recourse to larger external assistance. The total external assistance which the government received from abroad was Rs. 9843.80 crores. The amount utilised was Rs. 7309.50 crores. In the aggregate aid utilisation, the share of loan is 81.68 percent, grants and P.L assistance constituted 15.83 and 2.49 percent respectively. Foreign Aid as a percentage of plan outlay was 18.54 percent and in investment was 11.47 percent.

Annual Plan (1979-80):

During this period the total aid authorised was Rs. 1859.50 crores. The share of loans and grants in total aid utilised was 77.73 percent and 22.27 percent respectively. The actual aid which was utilised in the period was Rs. 1367.00 crores.

Sixth Plan (1980-85) :

The sixth Plan was conceptualised keeping in view achievements and shortcomings of the past three decades of planning. Removal of poverty was foremost objective of the plan even though it was recognised that task of this magnitude could not be accomplished in a short period of five years[16].

The increasing oil prices and the rising level of oil imports increased our import bill (see table 4.3). the imports rose from Rs. 12,549 crores to Rs. 17,134 crores. Due to the increase in the quantum of import bill the share of aid also increased. The ratio of aid utilisation to imports in 1980-81 was 17.23. At the end of the 6th plan the ratio of aid to imports was 14. Import of wheat and edible oils further worsened our balance of payments position[17]. To overcome from this situation greater demand for external assistance arisen.

The terms of investment by Arab investors was relaxed by our government in October 28th, 1980 and our country's triumphant entry into the Euro-dollar market for loan to the aluminium project in Orissa and development facilities for the Bombay high by the Oil and Natural Gas Commission are definite signs that the Government to diminish restrictions on foreign investment and external borrowing.

The total external assistance during the 6th plan period was Rs. 16,407.20 crores in which the aid utilised was Rs. 10,902.70 crores (see table 4.1). The share of loans and grants in total aid utilised was 83.67 percent and 16.33 percent respectively. During the 6th plan period the total plan outlay was Rs. 97,500 crores and total investment was Rs. 1,72,210 crores. The foreign aid percent in total plan outlay and total investment was 11.18 percent and 6.33

percent respectively (see table 4.2(a)). This shows foreign aid as a percent of plan outlay and total investment reduced a lot.

The government utilised large amount of loans on industrial development (see table 4.4A). It was increased from Rs. 256.4 crores in Second Plan to Rs. 1,654.80 crores in Sixth Plan. The government utilised Rs. 2,244.50 crores on agricultural development. If we see the table 4.4A, we to know that the government spend a huge amount of foreign loans on agricultural development.

During 1951 to 1985, i.e., from the first five year plan to sixth five year plan, there was an inflow of loans and grants by major sources viz., international agencies, Canada, Japan, UK, USA, USSR, West Germany and Australia. The amount of utilisation from these major sources were Rs. 8,161.8 crores, Rs. 570.80 crores, Rs. 784.8 crores, Rs. 1228.6 crores, Rs. 2876.6 crores, Rs. 1,133.60 crores, Rs. 1,719.4 crores, Rs. 77.5 crores respectively (see table 4.5A).

Seventh Five Year Plan (1985-90) :

The Seventh Plan emphasized on policies and of programs, the aim of which had been rapid growth in food grains production employment opportunities and productivity within the framework of basic tenants of planning namely, growth, modernisation, self-reliance and social justice[18]. During the first three years of this plan the Indian economy was faced with severe drought conditions. In spite of these conditions the seventh plan fare exceptionally well.

The net inflow of external resources for the seventh five year plan 1985-90 has been estimated at Rs. 18,000 crores at (1984-85 prices) (see table table 4.2). But the actual amount of aid which came to India during the period was Rs. 20,000 crores. The total plan outlay during the plan was Rs. 1,80,000 crores.

The total investment during the period was Rs. 3,22,366 crores. The share of foreign aid in plan outlay as well as in total investment was 11.11 percent and 6.20 percent respectively (see table 4.2a).

The total amount of foreign aid during seventh plan was Rs. 34,971 crores and the actual utilisation was Rs. 22,701 crores (see table 4.1). The share of loans and grants in total aid utilised was 88.63 percent and 11.37 percent respectively. The import bill in the seventh plan is every succeeding years is increasing. The ratio of aid utilisation to imports during 1987-88 i.e., in the third year of seventh plan was Rs. 22.7 crores (see table 4.3).

During the seventh plan the government distributed foreign loans/credits more on energy sector (see table 4.4B) i.e., Rs. 6705 crores then Industry sector i.e., Rs 2168 crores, Infrastructure Rs. 1882 crores, Irrigation Rs. 1052 crores, Agriculture Rs. 1246 crores, Social Sector Rs. 799 crores, Urban development Rs. 561 crores.

During the seventh five year plan the government utilised the loans and grants by major sources such as IDA, IBRD, USSR, Japan, USA, Germany West, UK, ADB, France, Canada and other sources. The amount of assistance utilised was Rs. 5,445 crores, Rs. 7,759 crores, Rs. 424 crores, Rs. 2,069 crores, Rs. 1226 crores, Rs. 807 crores, Rs. 984 crores, Rs. 992 crores, Rs. 234 crores (this is the first time assistance came from France during the 3rd year of the seventh five year plan) Rs. 138 crores, Rs. 2763 crores, Rs. 22700 crores respectively (see table 4.5B).

Annual Plans (1990-91 and 1991-92):

The eighth five year plan (1990-95) could not take off due to the fast changing political situation at the center. The new government which assumed power at the center by June, 1991 decided that the Eighth Five Year Plan would commence on 1st April 1992 and that 1990-91 and 1991-92 should be treated as separate Annual Plans formulated within the framework of the earlier approach to the 8th plan (1990-95), the basic trust of these Annual Plans were on maximization of employment and social transformation[18].

In July, 1991 the new government started to liberalise India's economy with a reform program focused on the investment regime, trade policies, the financial sector, taxation, and public enterprises. The reforms major objectives were to reduce the capital intensity of India's growth process, lessen its reliance on the unsustainable expansion of the public sector, and thus translate the country's relatively high investment rate into high and sustainable growth of output and employment. Compounding the difficulties inherent in any liberalization process, the government also faced serious fiscal and external imbalances which had generated double digit inflation and put the country on the verge of defaulting on its external debt obligations[20].

The total external assistance in the form of loans and grants in 1990-91 were Rs. 8,123 crores, the utilised amount is Rs. 6,704 crores (see table 4.1). The share of loans and grants in total aid utilised was 92.03 percent and 7.96 percent respectively.

During the 1991-92 annual plan the total assistance which was flown to our country was Rs. 12,708 crores and the actual amount utilised was Rs. 11,615 crores (see table 4.1). The share of loans and grants in total aid utilised was

92.09 percent and 7.91 percent respectively. The approved plan outlay during 1990-91 is Rs. 67,717 crores and in 1991-92 it was Rs. 72,317 crores.

During the 1991-92 the import bill was raised and the ratio aid utlisation to imports was 24.27 (see table 4.3). The government gave top priority to energy sector i.e., Rs. 3671 crores then Social Sector Rs. 235 crores and thirdly to Industrial Sector i.e., Rs. 1945 crores. During 1991-92, it gave priority to energy sector, for Structural adjustment and industrial sector the amount in these three sectors were Rs. 3671 crores, Rs. 1109 crores and Rs. 1945 crores respectively (see table 4.4B).see graph-4.6.

During 1990-91 the aid utilisation by source wise i.e., from IDA it is Rs. 1,389 crores IBRD Rs. 2,185 crores and Japan it is highest than other countries i.e., Rs. 894 crores. During 1991-92 the aid utilised by sources i.e., IDA, IBRD, Japan & ADB were Rs. 2,547 crores, Rs. 3295 cr, Rs. 1969 crores, Rs 1352 crores respectively (see table 4.5B). Table 4.9 explains the gross aid and net aid utilisation (see graph 4.3).

Eighth Five Year Plan (1992-97) :

Formulated against the backdrop of momentous changes which took place in the recent past in many parts of the world and our own economic crisis of unprecedented dimensions which threatened to disrupt the entire fabric of the economy, the new approach to the 8th plan (1992-97) entitled "objectives, thrusts and macro dimensions of the Eighth Plan ", which was approved and endorsed by the National Development Council on December 23-24, 1991 seeks to give a new orientation to planning in the country. Plagued by mounting Fiscal deficits, the ever-increasing non-plan expenditure, loss-making public sector undertakings and the chronic current account deficits, the government has already initiated a series of policy measures to tackle these problems. It has been decided that planning will be indicative in nature (It concentrates on building a long-term strategic vision of future and sets forth priorities of the nation) now and that industry and trade will be increasingly freed from government/bureaucratic control. It also seeks to make people's initiative and participation a key element in the process of development[21].

The total aid authorised during the eighth plan 1992-96 [four years of eighth plan]was Rs. 53,455.20 crores and the amount of aid actually utilised was Rs. 44,666.2 crores (see table 4.1). The share of loans and grants in total aid utilised was 91.61 percent and 8.39 percent respectively.

During the eighth five year plan the level of national investment is proposed at Rs. 7,98,000 crores and the public sector outlay of Rs. 4,34,100 crores (see table 4.2B). The percentage share of foreign aid in both the cases were 6.89 percent and 12.67 percent respectively (see table 4.2a).Graph 4.4 explains gross aid utilisation as a percentage of gross capital inflow, gross savings, capital formation and GDP (see table 4.10).

The sources of loans & grants from IDA, Japan, West Germany, ADB is very high when compared to other sources. The amount of IDA soft loan utilised was Rs. 8640 crores (1992 to 95) IBRD Rs. 8968 crores, Japan Rs. 6934 crores, West Germany Rs. 2339 crores, ADB Rs. 3227 crores etc. [see table 4.5B]. Graph 4.5 expalins net aid as a percentage of domestic savings, capital formation and GDP (see table 4.11).

Composition of External Aid :

The composition of external assistance shows that roughly 60% is on account of multilateral aid and the remaining 40% is on account of bilateral aid. The main source of multilateral aid is IMF, World Bank and IDA. World Bank and IDA together account for more than 90% of total multilateral assistance and more than one-half of total external assistance[22].

IMF Role in India's external financing :

India has been facing severe difficulties in her bops since the inception of the planning in the country. To overcome these difficulties IMF played an important role by allowing her to draw from it under various schemes following certain conditions[23]. The share of the IMF in financing of current account deficit since the planning era are shown in table 4.6.

The table 4.6 reveals that except during in the 6th plan period, the share of IMF is financing the current account deficit was marginally and the high repayment or [repurchases] to IMF was one of the main causes for the increase in the deficits on current account period. During the last 3 years of the first plan period repurchases accounted to Rs. 41.5 crores and it might be responsible for nearly 30 percent of deficit on current account. But the IMF helped India to adjust the balance of payments during next two plans by 3.2 percent in the second plan and 3.6 percent in the third plan. It was 0.5 percent during annual plans. The remaining gap was filled by external assistance and reserves in the balance on current account.[24]

India draw from the various IMF facilities amounting to Rs. 485 crores in 1974-75 and Rs. 207 crores in 1975-76. There were financed a little over 60 percent of total current account deficits in these two years. Over the next four years 1976-77 to 1979-80, as bops position improved, India repaid Rs. 882 crores. During the post first oil shock period 1974-75 and 1979-80 taken together the current account recorded a net surplus of Rs. 298.7 crores. This together with a large capital inflow contributed to an accretion in the reserves of Rs. 5,148 crores during this period. The external financing requirements were of a large order during the 6th plan period. About 35 percent was financed by way of external assistance 32 percent by way of borrowings from the IMF Rs. 274 crores under the Compensatory Financing Facility and Rs. 545 crores from the IMF's Trust Fund in 1980-81. India negotiated for an Extended Fund Facility of SDR 5 billion with the IMF in November 1981. It was the highest loan to India in her career with IMF[25].

During the first four years of the 7th plan period the current account deficit including errors and omissions amounted to Rs. 29,560 crores the repayments (repurchases) recorded of Rs. 3,681 crores in the same period. About 13 percent was financed by drawing on the reserves and the balance 87 percent was financed by external assistance, commercial borrowings and non-resident deposits. The deficit was recorded Rs. 10,544 crores in the last year of the seventh plan, and the repayment of IMF was order Rs. 1,460 crores nearly 50 percent of deficit on current account was financed both external assistance and the rest commercial borrowings and non-resident deposits.[26]

In the context of hereby withdrawals from non-resident deposits and the drying up of the source of commercial credits, the much need support of commercial credits, the much need support to the country's balance of payments was provided mainly by the IMF. After the completion of the drawings under the extended arrangements in April, 1984, India did not take any recourse to the IMF till Dec. 1990. The gross drawings from IMF from Jan 1991 to Jan 1992 amounted to SDR 2.2 billion equivalent to $ 3.0 billion or Rs. 65 hundred crores. Under first Credit Tranche Standby arrangement and Compensatory and Contingency Financing Facility with conditionalities of budgetary and credit ceilings, exchange and interest rate policies and avoidance. of restrictions as current payments and transfers[27].

The World Bank Loans to India :

The World Bank loans, though not concessional ,are available at relatively favourable terms as compared to commercial sources. The loans are repayable over a period of 20 years. The interest rate on its loans is variable and revised semi-annually in accordance with World Bank's own cost of borrowing. The commitment change on undisbursed amount is levied at 0.75 percent World Bank assistance to the Country added to $ 18.6 billion till 1994-95. Loans though available generally for projects, included fast disbursing non-project assistance also in recent years[28]. The World bank upto the end of March 95 provided assistance worth of Rs 3438. 3cr (23.1 pc) .The utilised amount was Rs 25001 cr (23.7).see table 4.8. The major external assistance is coming from world bank , second from IDA see table 4.8

The fast disbursing component, net linked to any project, is a recent development in external assistance. Thus structural adjustment loans were 23% of gross disbursals during 1993-94[29].

IDA loans to India :

International Development Association (IDA) has been a major source of concessional lending to the developing countries. IDA credits do not carry any interest charge, but a service charge of 0.75% is levied on the disbursed amount of credits. The credits are available for longer period of 35 years, with a grace period of 10 years. IDA assistance to India began in 1961 and had till 1994-95 extended credits worth over $ 21 billion on the country[30]. The IDA till the end of

March 95 authorised the assistance upto Rs 30139 cr (20.2 pc)and utilised Rs 25582 cr (24.2 pc).

The share of the concessional aid given by IDA went down from 42% in 1984-85 to 18% in 1993-94, while that of World Bank increased from 15% to 34% during this period[31].

Aid India Consortium :

There is no doubt about the significance of continuing Official Development Assistance (ODA) flows to India, the actual aid utilization had drawn criticism from the consortium members. Available data suggest that not all of the consortium pledges are formalised into development assistance agreements. Moreover, once committed, ODA would tend to disburse only partially and slowly. For example, the cumulative consortium pledges for 1987-91 amounted to slightly over US $ 24 billion, of this, by 1992, some US $ 20.6 billion or about 85 percent were actually committed and US $ 13.3 billion or about 58 percent had actually been disbursed. In 1993, the government accelerate ODA utilisation, including a variety of incentives to the states and public enterprises implementing ODA - supported projects. Adequate data are not yet available to ascertain the impact of these measures, although evidence emerging in connection with supervision of bank supported projects suggests that the measures **are** having **a** positive impact. Given increased budgetary allocations from the center to the states for 1994-95 for externally aided projects, it is expected that from now on the ODA utilisation will improve substantially.

The Aid India Consortium was converted into the India Development Forum [IDF]and private investors were invited to join the forum in June 1993. IDF accounts for bulk of external assistance to the country. Worid Bank group accounts for around two-fifths of the aid pledged by the IDF. Apart from the aid pledged by the IDF, India gets aid from other sources the OPEC Fund, West Asian and East Asian and East European countries[32].

Undisbursed Aid in India :

Most of the external assistance is for projects and disbursements are therefore likend to the project implementation schedule. Utilisation of loans on several projects is very low. Insufficient provision of counterpart rupee funds, procurement delays, problems in land acquisition are among the reasons for slow implementation of projects and hence the low utilisation of relevant aid, which incidentally does not lapse but is carried over to the next year. Thus, a long time problem is the huge amount of undisbursed aid, or aid in the pipeline. While the amount declined considerably during 1993-94 due to cancellation of a large chunk of unutilised aid, still the undisbursed portion was Rs. 70,245 crore as at the end of March 94. This is nearly seven times the average annual utilisation of around Rs. 10,700 crores during 1991-92 to 1993-94. The major sectors where the ratio of utilisation of loans to undrawn balances was very poor as of 1994-95 included power (20%), irrigation (24%), Railways (20%), and industry (27%) over all, the rate of utilisation of loans was estimated to be around 20% in 1994-95.

The commitment charge on the undisbursed aid cost the country Rs. 68 crore in 1992-93. In 1988-89, the commitment charges were as high as Rs. 95 crores.
Table 4.7 explains the purpose-wise undisbursed loan/assistance during 1994 was Rs 52128 cr and in 1995 was Rs 81512 cr. Advance release of funds to the state governments, disintermediation of loans to Central Public Sector units, streamlining of procedures relating to award of contracts and procurements and

strengthening of project monitoring and supervision, are some of the measures taken to improve the utilisation ratio of external aid[33].

Estimation and Analysis

Growth rates in the variables used in the study over a period 1963-1994 was found out. This can help in understanding, the historical development used in the study namely, Gross aid, Net aid, GNP, Savings, GDCF, Exports, Labour force overtime. Then using Indian data, a few of the relationships between aid, savings, growth rates of GNP, Investment were estimated using OLS method for the period 1963-94 and are discussed below.

Item	1963-94	1963-70	1970-80	1980-90
GNP	4.05	3.2	3.61	5.1
GDP	4.05	3.2	3.3	5.63
Savings	13%	12%	15%	13%
GDCF	4.72	3.2	5.23	5.89
Exports	14%	11%	17%	14%
Population	2.19	2.19	2.26	2.14
GAD	8.19%	1.6%	6.94%	1.4%
Net Aid	5.51%	- 4.74%	6.42%	1.1%

To have a comparative study of the relationship, of aid with other variables, the equations were estimated for India, South Korea and Colombia for the period 1980-90. For all the variables which are used in the analysis the data is available since 1980 year wise. So the study had confined the analysis to this period only.

At the first instance, growth rates were found out for all the variables used in the study. They are reported in the above table.

The overall growth rate for the whole period 1963-94 was found and then decade wise growth rates were also found. The overall growth rate of GNP, GDP for the complete period was 4.05 where it was around 3.2% in 1960s, 3.6% in 1970s and 5.1% in 1980s. Saving growth rate was 3.2% in 1960s, 5.23% in 1970s, 5.89% in 1980s and the overall rate being 4.72%. The population growth rate was in the range of 2.14 - 2.26% for the above period. Exports were growing at an average rate of 14%, while it was highest 17% during 1970s. Gross aid recorded a growth rate of 8.19% for the period 1963-94. In fact in 1960s gross aid recorded a low growth rate of 1.6%, It started increasing during 1970s as 6.94% and it had drastically decreased during 980s to 1.4%. Similarly net aid figures also indicate highest growth during 1970s and the overall growth being 5.51% for the entire period.

Then a simple linear approximation of aid and other variables was done and using the data for 1963-94 period the relationships were estimated using OLS method of estimation.

Single Equations :

a) GNP and Savings, GAD and Private investment

$$Y - a + a_o \text{ Savings} \ldots\ldots\ldots\ldots 1.$$

$$98443.7 + 1.02 \text{ Savings}$$
$$(24.37) \quad (14.34)$$

$R^2 = 0.95$

This equation reveals the relationship between GNP and Savings from the estimated equation savings has a significant impact on GNP with a t-ratio of 14.34 and R^2 for this equation is 0.95.

$$Y = 98554.07 + 1.11 \text{ Savings} - 1.35 \text{ Gross Aid} \ldots\ldots 2.$$
$$(22.96) \quad (3.3) \quad (-0.25)$$

$R^2 = 0.95$

This equation gives the relationship between GNP, Savings and Gross Aid. The co-efficient of Gross Aid is negative though insignificant. Here also the savings co-efficient is significant with the t-ratio of 3.3 and R for this equation is 0.96.

$$Y = 106946.9 + 0.7023 \text{ Savings} + 0.194 \text{ Gross Aid} + 4.64 \text{ Pvt. Inv.} \text{ --3}$$
$$(9.3) \quad (1.13) \quad (3.3) \quad (0.79)$$

$R^2 = 0.96$

This equation explains the impact of savings, gross aid, private investment on GNP. This equation has good R^2 of 0.96 and the co-efficient of Gross Aid is significant with 3.3 as a t-ratio. This implies that one unit increase in Gross Aid is leading to 19 percent increase in GNP.

$$Y = 97139.17 + 0.973 \text{ Savings} + 2.73 \text{ Net Aid} \ldots\ldots 4.$$

(18.48) (6.4) (0.42)

$R^2 = 0.95$

This equation gives the relationship between savings, net aid and GNP. Here again, saving co-efficient is significant with 6.4 as a t-ratio. The impact of net aid on GNP was positive but has a insignificant t-ratio.

$$Y = -115471.6 + 0.43 \text{ Savings} - 4.38 \text{ Net Aid} + 3391.5 \text{ Population} \quad \text{- 5.}$$

(-3.54) (4.19) (-1.55) (6.54)

$R^2 = 0.99$

This equation gives the impact of savings, net aid, population on GNP. The goodness of fit this equation is 0.99. Here also the savings co-efficient is insignificant with a t-ratio of 4.19. Net aid has a negative impact on GNP. However, this has a insignificant t-ratio. Net aid is diverted into less productive channels.

$$Y = 96928.07 + 0.86 \text{ Savings} + 3.63 \text{ Net Aid} + 0.34 \text{ Exports} \quad \text{. . . . 6}$$

(16.7) (1.13) (38) (0.14)

$R^2 = 0.95$

This equation reveals the association of savings, net aid, exports on GNP. The R for this equation is 0.95. Here savings, net aid, exports all contribute positively to the growth of GNP. The net aid has a significant effect on GNP with a t-ratio of 3.8. This implies that a unit increase in net aid helps to increase GNP by 36 percent.

$$Y = 147402.5 + 1.75 \text{ Savings} + 1.92 \text{ Gross Aid} - 2.53 \text{ GDCF} \quad \text{——— 7.}$$

(6.61) (4.38) (0.41) (-2.21)

$R^2 = 0.97$

This equation gives the impact of savings, gross aid , GDCF on GNP. Here again, savings and gross aid co-efficients are significant . The R^2 for this equation is 0.97.

$$Y = -255702.6 + \underset{(1.53)}{} 0.93 \text{ Savings} \underset{(-0.77)}{} + 6.14 \text{ Gross Aid} \underset{(-1.52)}{} + 1.87 \text{ Net Aid} \underset{(0.23)}{}$$

$$+ \underset{(0.96)}{2.09 \text{ GDCF}} + \underset{(1.68)}{2.39 \text{ Exports}} - \underset{(-0.13)}{0.5288 \text{ Pvt. Invest.}} + \underset{(2.5)}{4924.33 \text{ Population}} - 8$$

$R^2 = 0.99$

This equation gives all the variables, savings, gross aid, net aid, GDCF, Exports, Private investment, Population are used as explanatory variables on GNP. The good of fit is 0.99. But the most of the variables have insignificant coefficients.

The relationship of growth and savings, aid, foreign private investment etc. is tested in the context of cross country studies (* Papanek, 1972) to examine the impact of foreign resources on growth and on the relationship between foreign resources and savings using regression analysis. rate of growth had been affected apart from aid and savings by a variety of factors such as exports, level of education size of manufacturing sector, size of population labour force etc.

This had been examined using Indian data for the period 1962 - 1994 using OLS method of estimation. The equations are reported in the end. The interpretation of the estimated results is as follows.

The impact of gross and net aid on the GNP was estimated with variables which explain this relationship savings, gross aid, net aid, Gross Domestic Capital Formation (GDFC), exports, private investment and exports are taken as explanatory variables. Variants of the same relations are estimated and reported. The overall results are satisfactory tested with the goodness of fit ranging from 0.99 to 0.94. Most of the variables had statistically significant t-ratios.

There had been cross country studies using this type of equations. Most of those studies also had some problems of low R^2 and t-ratios, simultaneously and problems associated with cross section. Because in data, there are cross country comparisons above results cannot be compared with them We again emphatically state that these are preliminary attempt of estimating the relationships simply with ordinary least square method

The quantitative evidence about the factors affecting the rates of growth and savings is suggestive but hardly conclusive. We need to do more in depth analysis. b) The relationship between aid and domestic saving and investment.

There have been studies to test the impact of aid on domestic levels of saving and investment (*Victor Levy, 1987). This relationship helps to evaluate the role of development assistance intended for fixed capital formation is indeed invested or not.

(' Papanek G, 1972. " the effect of aid and other resource transfer on savings and growth in LDCs ",Economic Journal 1972 Vol. 83. No.3. p934-950.) (Mosley P, " Overseas aid : Its defence and reform " 1987 Ed. Brighton , Wheat Sheaf Books)

In Indian context, the present study estimated the investment, aid, savings relationship using time series data from 1962 - 1994. The analysis reflects the extent to which an inflow of foreign aid contributes to economic growth.

To assess the relationship among aid flows, saving rates and investment rates, we estimated the equations of the following form:

$(I/Y) = \grave{a} + \acute{a} (S/Y) + ç (A/Y)$

Where $(I/Y)_i$ is the ratio of gross domestic investment to GDP, S/Y, and A/Y are the corresponding ratios of Gross Domestic Savings and aid flows. Problem of simultaneity had been noticed and being tried in our next version with first difference method.

Here using OLS estimated the two equations.

a) $(I/Y) = a_o + a_1 (S/Y) + a_2 (\text{Gross Aid})$

I/Y = 0.2209 + 0.1385 Savings - 1.292 Gross Aid

(32.17) (3.35) (-1.85)

$R^2 = 0.40$

The impact of savings, gross aid on investment is analysed with the above mentioned equations. Equation (a) reveals that Saving Ratio has a significant positive impact on investment ratio. This implies that one unit of Increase in savings increases 13% in investment. Gross Aid has a negative impact on investment, the overall goodness of fit is 0.40 only.

(* Victor Levy , " Does Concesssionery Aid Lead to Higher Investment Rates in Low-Income Countries ? ", " Review of Economics and Statistics 1987. Vol 69, p150-156)

b) I/Y = 0.2126 + 6.80 Savings + 6.66 Net Aid

(24.17) (3.4) (6.85)

R^2 = 0.33

Similarly, when the same equation is estimated with Net Aid (b), though R^2 is 0.33 for this equation also, but the savings and Net Aid have a significant t-ratios of 3.4 and 6.85 respectively.

c) I/Y = 0.2137 + 0.83 Gross Aid Ratio

(28.28) (2.49)

R^2 = 0.17

Equation (c) is estimated to see the relationship between the Gross Aid and Investment Ratios. Here Gross Aid is significant which implies that a percentage increase in Gross Aid is leading to 8.3% increase in investment.

d) I/Y = 0.2165 + 1.47 Net Aid Ratio

(21.34) (1.43)

R^2 = 0.6

Equation (d) is estimated using the Net Aid and Investment ratios. Here again R^2 is quite low and Net Aid ratio has a t-ratio of 1.43.

e) I/Y = 0.2196 + 0.147 Exports Ratio

(39.9) (2.65)

$R^2 = 0.18$

Equation (e) gives the impact of exports ratio on investment ratio. The exports ratio has a **t-value** of 2.65. Here again the R^2 is low at 0.18.

The estimated equations reported above indicate that the simple OLS method of single equation may not reveal the true impact of aid on investment. However, a rough estimate will indicate the association between these variables. These can be improved upon further taking into account the problem of simultaneity and endogenising savings etc.

As the equations reveal, the goodness of fit indicator R^2 is very low for all the equations ranging from 0.40 to 0.60. However, the savings coefficient in equation a & b are quite significant with good t-ratios. These two equations are two variants of Investment impact of gross and net aid. Though the negative relation was found between aid & investment in a) the coefficient was statistically insignificant. Equation c), d) & e) reveals that impact of gross aid, net aid and exports on investment.

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Aggregate bxternal Assistance During the Plans

(Rs. in crores)

Period	**Loans/** Credits	Grants	**PL 480/665 assistance and third country currency assistance**	**Total**
Authorisations :				
First Plan •	226.80	138.00	16.90	381.70
Second Plan	1267.60	121.40	1130.80	2519.80
Third Plan	2308.80	132.50	450.60	2891.90
Three Annual Plans	2233.16	166.14	621.37	3020.67
Fourth Plan	2634.35	163.20	96.15	2893.70
Fifth Plan	7912.10	1795.30	136.40	9843.80
Annual Plan (1979-80)	1295.10	564.40	-	1859.50
Sixth Plan	14843.20	1564.00	_	16407.20
Seventh Plan	32232.00	2739.00	_	34971.00
Annual Plan (1990-91)	7601.00	522.00	_	8123.00
Annual Plan (1991-92)	11806.00	902.00	_	12708.00
Eighth Plan (4 years i.e., 1992-93 to 1995-96)	49200.20	4255.00	-	53455.20
Total	**61006.20**	**5157.00**	245222	**68615.42**

Source : Various issues of Economic Surveys i.e., 1980-81, 1988-89,1995-96, 1996-97

Table 4.1(contd.)

Aggregate External Assistance During the Plans

(Rs. in crores)

Period	Loans/ Credits	Grants	PL 480/665 assistance and third country currency assistance	Total
Utilisation :				
First Plan	126.40	70.20	5.10	201.70
Second Plan	724.90	160.60	544.80	1430.30
Third Plan	1908,00	106.20	853.20	2867.40
Three Annual Plans	2200.48	225.79	719.43	3145.70
Fourth Plan	2746.25	143.23	153.95	3043.43
Fifth Plan	5970.50	1157.00	182.00	7309.50
Annual Plan (1979-80)	1062.50	304.50	–	1367.00
Sixth Plan	9122.50	1780.20	–	10902.70
Seventh Plan	20120.00	2581.00	–	22701.00
Annual Plan (1990-91)	6170.00	534.00	–	6704.00
Annual Plan (1991-92)	10696.00	919.00	–	11615.00
Eighth Plan (**4 years i.e., 1992-93** to 1995-96)	40920.60	3745.60	-	44666.20
Total	**101641.73**	**11657.12**	**2453.38**	**115752.23**

The Share of Foreign Aid in Plan Outlay and Total investment under Five Year Plans.

(Rupees in Crores)

Plan Period	Total Plan outlay	Total Investment	Total Foreign Aid	Foreign Aid as a percentage of of Plan outlay	Foreign Aid as a percentage of investment
First Plan	1960	3360	201.70	10.29	6.00
Second Plan	4672	6750	1430.30	30.61	21.19
Third Plan	8577	10400	2867.40	33.43	27.57
Annual Plans	6625	6626	3145.70	47.48	47.48
Fourth Plan	15779	22635	3043.43	19.29	13.45
Fifth Plan	39426	63751	7309.50	18.54	11.47
Sixth Plan	97500	172210	10902.70	11.18	6.33
Seventh Plan	180000	322366	20000 00	11.11	6.20
Eighth Plan	434100	798000	55000.00	12.67	6.89

Source : (a) Ministry of Finance, India Economic Statistics Public Finance, Dec, 1986.

(b) Thimmaiah G, External assistance as a means of covering resources gap, Capital Annual 1981, p.21.

(c) Economic Survey, Government of India, New Delhi 1980-81 and 1988-89.

(d) Basic Statistics CMIE Aug. 94

Table 4.2b

Public Sector Outlays and Actual Expenditure During the Plans

(Rs.Crores)

Plan	Period	Approved Outlay	Actual Expenditure
First Plan	1951-56	2358	1960
Second Plan	1956-61	4500	4672
Third Plan	1961-66	8099	8577
Annual Plan	1966-69	6757	6625
Fourth Plan	1969-74	15902	15779
Fifth Plan	1974-79	39303	39426
Annual Plan	1979-80	12601	12177
Sixth Plan	1980-85	97500	109292
Seventh Plan	1985-90	180000	**218730***
Annual Plan	1990-92	135793	**123121** *
Eighth Plan	1992-97	434100	434100

* **at current prices, others are at base year prices.**

Source : Basic Statistics relating to Indian Economy, CMIE, Aug. 94.

Notes : The Public sector outlay during the First Five Year Plan was Rs. 1960 crores. The Government's development activities increased from the first plan has risen to Rs. 85.77 crores in third plan. Due to the Political disturbances in the economy and due to severe draught and devaluation, the public expenditure reduced to Rs. 6625 crores. During fourth plan it raised to Rs. 15779 crores and reached to Rs. 39426 crores in the fifth plan. During the seventh plan, the Public Sector actual expenditure was Rs. 218730 crores which is highest. Under the eighth plan estimated Rs. 434100 crores

Table 4.3
Ratio of Aid Utilisations to imports in India 1974-96

(Rs. in Crores)

Year	Aid Utilizations	Imports	Ratios
1974-75	1314	4519	29.1
1975-76	1841	5265	35
1976-77	1599	5074	32
1977-78	1290	6020	21.43
1978-79	1216	6811	18.1
1979-80	1353	9143	14.8
1980-81	2162	12549	17.23
1981-82	1865	13608	13.71
1982-83	2252	14293	15.76
1983-84	2266	15831	14.31
1984-85	2359	17134	13.77
1985-86	2936	19658	14.93
1986-87	3605	20096	17.93
1987-88	5052	22244	22.71
1988-89	5304	28235	18.79
1989-90	5803	35328	16.43
1990-91	6704	43198	15.52
1991-92	11615	47851	24.27
1992-93	10982	63375	17.33
1993-94	11781	73101	16.12
1994-95	10881	89971	12.1
1995-96	11022.2	122678	8.98

Source : Economic Survey 1995-96 & Basic Statistics relating to Indian Economy (CMIE) Aug. 1994.

Table 4.4a

Purposewise distribution of Foreign Loans Utilised

Purpose	First Plan (1951-56)	Second Plan (1956-61)	Third Plan (1961-66)	Annual Plan (1966-69)	Fourth Plan (1969-74)	Fifth Plan (1974-79)	Sixth Plan* (1979-84)
Transport & Communi-cations	15.6	159	291.4	166.3	371 6	3444	453
Power Projects	12 1	293	152 2	145.4	105.1	261.6	1119.6
Steel & Steel Projects	2.7	254.1	942	118.6	1098	136	38
Iron Ore Projects	-	-	10.4	1.3	-	191 4	-
Industrial Development	23	256.4	1270.1	15108	2197.8	1744 1	1654.8
Agricultural Development	3.4	-	22.5	70.8	175	8403	22445
Food Aid	903	157	–	109.2	312	2764	1.3
Oil and Petroleum Products						433 3	30.2
Debt relief	-	–	–	77.2	244.9	208	-
Miscellaneous	-		0.2	0.6	7.1	117.3	373.4

* The actual plan was implemented for 1980-85. Figures for 1979-80 have been combined with the four years of the sixth five year plan

Source : **RBI** Report on currency and Finance 1976-77 and 1983-84.

Table 4.4b

Purposewise distribution of ForeignLoans/Credits

(Rs. in Crores)

Sector	1985-90	1990-91	1991-92	1992-93	1993-94	1994-95
Agriculture	1246	485	659	1032	615	472
Energy	6705	2050	3671	3184	4378	4347
Fertiliser	909	47	29	130	117	111
Industry	2168	1616	1945	1276	959	862
Infrastructure	1882	531	649	610	537	1403
Irrigation	1052	511	821	727	775	870
Social	799	158	235	376	459	1025
Urban Development	561	447	372	912	403	392
Structural Adjustme	-	_	1109	1933	2192	1615
Others	1401	424	775	732	144	72
Grand Total	**16723**	**6269**	**10265**	10912	10579	**11169**

Source : RBI Report on currency and Finance .

Table 4.5a

Inflow of Foreign Aid Utilised by Major Sources

Source	First Plan (1951-56)	Second Plan (1956-61)	Third Plan (1961-66)	Annual Plan (1966-69)
Loans of ... which	126.4	725	1908.3	2200.4
Canada	-	15.7	11.6	58
Japan	-	16	88.2	122.3
UK	-	121.9	170.4	223.7
USA	92.6	48.6	795.2	773.6
USSR		74.8	207.3	136.6
West Germany	119.9	219.7	187.3	311
International Agencies	33.3	222.8	324	424.8
Grants of which :	70.2	160.6	106.2	225.8
Australia	3.2	7.4	7	27.2
Canada	19.7	60.3	54.4	167.6
Japan	-	0.4	0.1	-
U.K.	-	0.5	0.8	5.5
U.S.A	44.3	85.5	31.1	10.6
USSR	-	1.2	3.8	2.8
West Germany	-	0.6	2	6.2
Commodity Aid	5.1	544.8	853.2	719.4
Total Aid	514.7	2305.8	4750.9	5415.5

Source : Agarwal A N, Indian Economic Information Year book 1987-88, National Publishing House, New Delhi 1987,p.176.

Table 4.5b

External Assistance: Utilisation by Source

Year	IDA	IBRD	USSR	Japan	USA	West Germany	UK	ADB	France	Canada	Others	Total
1970-71	45	42	317	37	57	79	37	37		81	143	875
1971-72	80	29	334	42	72	93	14	45	-	77	126	912
1972-73	132	35	55	62	87	126	10	39	-	61	121	728
1973-74	255	27	68	96	88	131	165	52	-	60	154	1096
1974-75	320	35	69	96	101	113	149	40	-	78	392	1393
1975-76	430	36	129	89	160	140	27	63	-	73	767	1914
1976-77	477	69	69	130	132	154	26	54	-	68	489	1668
1977-78	289	130	25	76	77	162	26	41	-	44	464	1334
1978-79	272	149	22	96	131	216	22	38		23	270	1239
1979-80	445	121	43	66	120	206	34	33		31	285	1384
1980-81	522	139	82	90	144	197	33	70	-	21	885	2183
1981-82	693	377	70	36	127	203	23	37		27	300	1893
1982-83	1085	287	30	128	137	160	40	40		31	346	2284
1983-84	900	486	76	139	115	122	75	49		31	304	2297
1984-85	980	344	53	68	127	188	108	103	-	49	390	2410
1985-86	1198	395	70	175	147	195	161	170	-	40	425	2976
1986-87	1011	801	127	409	260	200	176	233	-	27	389	3633
1987-88	1207	1659	123	628	257	131	222	247	22	27	557	5080
1988-89	1080	2361	48	389	275	155	207	129	104	20	557	5325
1989-90	949	2543	56	468	287	126	218	213	108	24	835	5827
1990-91	1389	2185	56	894	422	182	295	164	381	16	737	6721
1991-92	2547	3295	98	1969	833	841	308	1352	252	21	30	11546
1992-93	3407	2579	35	1367	77	1082	310	1038	355	26	635	10911
1993-94	2083	4022	-	3355	17	677	221	607	181	-	617	11780
1994-95	3150	2367	-	2212	35	580	212	1582	77	3	663	10881

Source : Balance of Payments, July 1996, CMIE A24

(Rs. in Crores)

Year	Current Account deficit/surplus	External Assistance	Financed by IMF Credit	Other Capital	Reserves.
1951-56	-140.4	55.1	-41.5		**126.8**
		[39.3]	[-29.6]		[90.3]
1956-61	-17173	675.3	54.7	388 6	598.7
		[393]	[3.2]	[22.6]	[34.9]
1961-66	-2090.6	1927.5	76.3	81.1	5.7
		[92.3]	[3.6]	[3.8]	[0.3]
1966-69	-2251.1	2238.5	12.1	72.9	-72.4
		[99.5]	**[0.5]**	[3.2]	[-32]
1969-74	-25132	25681	-2179	212.4	-295.5
		[102.2]	[-8.7]	**[8.5]**	[-11.7]
1974-80	298.7	6021.7	-191.2	-1234.1	-3148
1980-85	-14869.3	5244	4709.5	-854.7	-189
		[35.7]	[31.7]	**[-5.7]**	[-1.3]
1985-89	-29560	9447	-3681	3906	3843
		[32]	[-12.5]	[13.2]	[13.0]
1989-90	-10544	4998.4	-1460	3606	12324
		[47.4]	[-13.9]	[34.2]	[11.7]

Note : **Figures in brackets are percentage of financing in the deficit on Current Account.**

Source : **R.B.I. occasional Papers, Vol.10, No.4, Dec. 1986, pp.473 to 533. Data on 1989-90, Government of India, Economic Survey, 1991-92.**

Indicating errors and om**issions.**

Notes : The above table explains that by the domestic borrowing, the Government is getting finances for its developmental programmes. The Share of public enterprises is very less. The capital inflow to our country during second, third and annual plans is very high compared to other plans, i.e., 22.5%, 28.2%, 35.9% respectively. The inflow of capital reduced from fourth plan onwards The main sources for public financing here are balance from current revenues, domestic borrowing and capital inflows.

Purpose-wise Undisbursed Loan/Assistance

(by end of March)

Sector	Rs. in Crores		Percentage of Share	
	1994	1995	1994	1995
Agricultural Sector	3682	3575	7.21	4.9
Energy	23448	32978	45.89	45.17
Fertiliser Sector	1089	1294	2.13	1.77
Industry	2901	5057	5.68	6.93
Infrastructure	6548	6292	12.81	8.62
Irrigation	1095	1346	2.14	1.84
Social Sector	4692	6864	**9.18**	9.4
Urban Development	3579	3305	7	4.53
Structural Adjustment	2454	2770	4 8	3.79
Others	1609	9524	3.15	13.05
Others	1031	8507	_	--
Total undisbursed Loan	52128	81512	99.99	100

Source : External assistance Ch.V, India's Balance of Payments May 1995, CMIE

Table 4.8

External Assistance Source-wise
(upto end of March ' 95) (Rs. in Crores)

Country/ Institution	Authorisation	Utilisation
IBRD	34383 [23.1]	25001 [23.7]
IDA	30139 [20.2]	255.82 [24.2]
EEC	1774 **[1.2]**	1409 **[1.3]**
IFAD	371 [0.3]	257 [0.3]
ADB	11884 [8.0]	5158 [4.9]
CANADA	2040 [1.4]	1412 **[1.3]**
FRANCE	2732 **[1.8]**	2835 [2.2]
NETHERLANDS	1952 **[1.3]**	2335 [2.2]
WEST GERMANY	7715 [5.2]	7203 [6.8]
JAPAN	21117 [14.2]	13441 [12.7]
SWEbDEN	2879 **[1.9]**	1612 **[1.5]**
USA	6958 [4.7]	6694 [6.3]
USSR	14029 [9.4]	2716 [2.6]
UK	610 [4.1]	5023 [4.8]
OPEC	2078 [1.4]	1877 [1.8]
OTHERS	2739 **[1.8]**	3020 [2.9]
TOTAL	**143400** **[100.00]**	**80248.82** **[100.00]**

Source : Balance of Payments, July 1996, CMIE p.24

Table 4.9
External Assistance (Rs. Crores)

Year	Aid pledged by Aid India Consortium		Aid from Consortium and non-Consortium sources					
	US $ billion	Rs. Crores	Gross Aid Utilisation	Principal Re-payments	Interest Payments	Total debt Service	Net inflow of aid	Debt Service as /o of col.3
	{1}	{2}	{3}	{4}	{5}	{6}	{7}	{8}
1961-62			532	91	52	143	389	27
1962-63	-	-	699	76	61	137	562	20
1963-64	-	-	929	85	72	157	772	17
1964-65	-	-	1139	109	82	191	948	17
1965-66	–		1216	121	106	227	989	19
1966-67	-	-	1132	160	114	274	858	24
1967-68	-	-	1196	211	122	333	863	28
1968-69	-	-	903	236	139	375	528	42
1969-70	-	-	856	268	144	412	444	48
1970-71			791	290	160	450	341	57
1971-72	1.25	940	834	299	180	479	355	57
1972-73	1.25	950	666	327	180	507	159	76
1973-74	1.10	852	1036	400	196	596	440	58
1974-75	1.40	1134	1314	411	215	626	688	48
1975-76	1.77	1483	1841	463	224	687	1154	37
1976-77	1.70	1523	1599	507	248	755	844	47
1977-78	2.12	1853	1290	-	-	821	469	64
1978-79	2.46	2015	1216	-		796	420	65
1979-80	3.32	2698	1353	-		801	552	59
1980-81	3.41	2681	2162	518	286	804	1358	37
1981-82	3.46	3089	1865	538	311	849	1016	46
1982-83	3.73	3585	2252	587	360	947	1305	42
1983-84	3.70	3980	2266	616	417	1033	1233	46
1984-85	3.96	4707	2359	647	529	1176	1183	50
1985-86	3.88	4748	2936	776	591	1367	1569	47
1986-87	4.40	5626	3605	1176	853	2029	1576	56
1987-88	5.40	7003	5052	1581	1043	2624	2428	52
1988-89	6.30	8741	5305	1646	1300	2946	2359	56
1989-90	6.70	11000	5803	1987	1699	3686	2117	64
1990-91	6.50	11350	6704	2329	1953	4282	2422	64
1991-92	6.70	17300	11615	3650	3006	6656	4959	57
1992-93	7.20	18600	10982	4788	4314	9102	1880	83
1993-94	7.40	23236	11781	5363	4211	9574	2207	81
1994-95	6.00	18822	10881	6161	5121	11282	-401	104
1995-96	-	-	10992	6844	4840	11684	-692	106

Source : Balance of Payments, July 1996, CMIE p.25

Table 4.10

Gross Aid Utilisation

Year	Gross Aid Utilisation as % of			
	Gross capital inflow	Gross Savings	Capital formations	GDP
1961-62	72.88	25.42	21.82	3.10
1962-63	121.99	28.23	23.97	3.78
1963-64	147.46	32.87	28.44	4.37
1964-65	123.4	36.30	•30.50	4.60
1965-66	118.17	32.08	27.70	4.65
1966-67	74.97	25.08	20.82	3.83
1967-68	70.27	26.60	22.42	3.46
1968-69	79.42	19.23	17.66	2.46
1969-70	79.48	14.16	13.62	2.12
1970-71	66.25	11.66	**11.02**	1.83
1971-72	79.81	**11.11**	10.44	1.80
1972-73	69.23	8.50	8.19	1.31
1973-74	70.62	9.06	8.76	1.67
1974-75	48.29	10.33	9.82	1.79
1975-76	79.42	12.33	12.43	2.34
1976-77	85.01	8.87	9.56	1.88
1977-78	69.47	6.38	6.87	1.34
1978-79	55.86	5.04	5.01	1.17
1979-80	70.54	5.48	5.35	1.18
1980-81	59.94	7.51	7.00	1.59
1981-82	50.85	5.57	5.17	**1.17**
1982-83	40.21	6.61	6.15	1.26
1983-84	35.56	5.81	5.46	1.09
1984-85	38.56	5.60	5.20	1.02
1985-86	36.54	5.91	5.25	**1.12**
1986-87	30.14	6.32	5.69	1.23
1987-88	29.46	7.04	6.43	1.52
1988-89	23.63	6.12	5.36	1.34
1989-90	19.76	5.20	4.69	**1.28**
1990-91	15.17	5.36	4.80	1.26
1991-92	19.04	8.15	7.81	1.89
1992-93	15.47	7.74	7.05	1.55
1993-94	-	7.21	7.11	1.45

Source : Balance of Payments, July 1996, CMIE p.26

External Assistance (Rs. Crores)

Year	Aid pledged by Aid India Consortium		Aid from Consortium and non-Consortium sources					
	US $ billion	Rs. Crores	Gross Aid Utilisation	Principal Re-payments	Interest Payments	Total debt Service	Net inflow of aid	Debt Service as % of col.3
	{1}	{2}	{3}	{4}	{5}	{6}	{7}	{8}
1961-62			532	91	52	143	389	27
1962-63	-	-	699	76	61	137	562	20
1963-64	-	-	929	85	72	157	772	17
1964-65	-	-	1139	109	82	191	948	17
1965-66			1216	121	106	227	989	19
1966-67	-	-	1132	160	114	274	858	24
1967-68	-		1196	211	122	333	863	28
1968-69	-		903	236	139	375	528	42
1969-70	-	-	856	268	144	412	444	48
1970-71			791	290	160	450	341	57
1971-72	1.25	940	834	299	180	479	355	57
1972-73	1.25	950	666	327	180	507	159	76
1973-74	1.10	852	1036	400	196	596	440	58
1974-75	1.40	1134	1314	411	215	626	688	48
1975-76	1.77	1483	1841	463	224	687	1154	37
1976-77	1.70	1523	1599	507	248	755	844	47
1977-78	2.12	1853	1290	-	-	821	469	64
1978-79	246	2015	1216	-	-	796	420	65
1979-80	3.32	2698	1353	-	-	801	552	59
1980-81	341	2681	2162	518	286	804	1358	37
1981-82	3.46	3089	1865	538	311	849	1016	46
1982-83	3.73	3585	2252	587	360	947	1305	42
1983-84	3.70	3980	2266	616	417	1033	1233	46
1984-85	3.96	4707	2359	647	529	1176	1183	50
1985-86	3.88	4748	2936	776	591	1367	1569	47
1986-87	4.40	5626	3605	1176	853	2029	1576	56
1987-88	5.40	7003	5052	1581	1043	2624	2428	52
1988-89	6.30	8741	5305	1646	1300	2946	2359	56
1989-90	6.70	11000	5803	1987	1699	3686	2117	64
1990-91	6.50	11350	6704	2329	1953	4282	2422	64
1991-92	6.70	17300	11615	3650	3006	6656	4959	57
1992-93	7.20	18600	10982	4788	4314	9102	1880	83
1993-94	7.40	23236	11781	5363	4211	9574	2207	81
1994-95	6.00	18822	10881	6161	5121	11282	-401	104
1995-96	-	-	10992	6844	4840	11684	-692	106

Source : Balance of Payments, July 1996, CMIE p.25

Table 4.11

Net Aid Utilisation

Year	Net Aid Utilisation as % of		
	Domestic Savings	Capital formation	GDP
1961-62	21.07	18.09	2.57
1962-63	25.16	21.36	3.37
1963-64	29.87	25.84	3.97
1964-65	32.85	27.58	4.16
1965-66	28.88	24.94 •	4.19
1966-67	21.53	17.88	3.29
1967-68	21.90	18.47	2.85
1968-69	14.20	13.05	1.82
1969-70	9.73	9.36	1.46
1970-71	7.39	6.98	1.16
1971-72	7.13	6.70	1.16
1972-73	4.33	4.17	0.66
1973-74	5.56	5.38	1.03
1974-75	7.10	6.75	1.23
1975-76	9.23	9.30	1.75
1976-77	6.06	6.53	1.29
1977-78	6.38	6.87	1.34
1978-79	5.04	5.01	1.17
1979-80	5.48	5.35	1.18
1980-81	5.71	5.32	1.21
1981-82	3.96	3.68	0.83
1982-83	4.89	4.54	0.93
1983-84	4.23	3.98	0.79
1984-85	4.07	3.77	0.74
1985-86	4.35	3.86	0.82
1986-87	4.26	3.83	0.83
1987-88	4.84	4.42	1.04
1988-89	4.22	3.70	0.92
1989-90	3.42	3.08	0.84
1990-91	3.50	3.13	0.82
1991-92	5.59	5.36	1.29
1992-93	4.34	3.95	0.87
1993-94	3.75	3.70	0.80
1994-95	2.05	1.98	0.50

Source : Balance of Payments, July 1996, CMIE p.27

Table 4.12

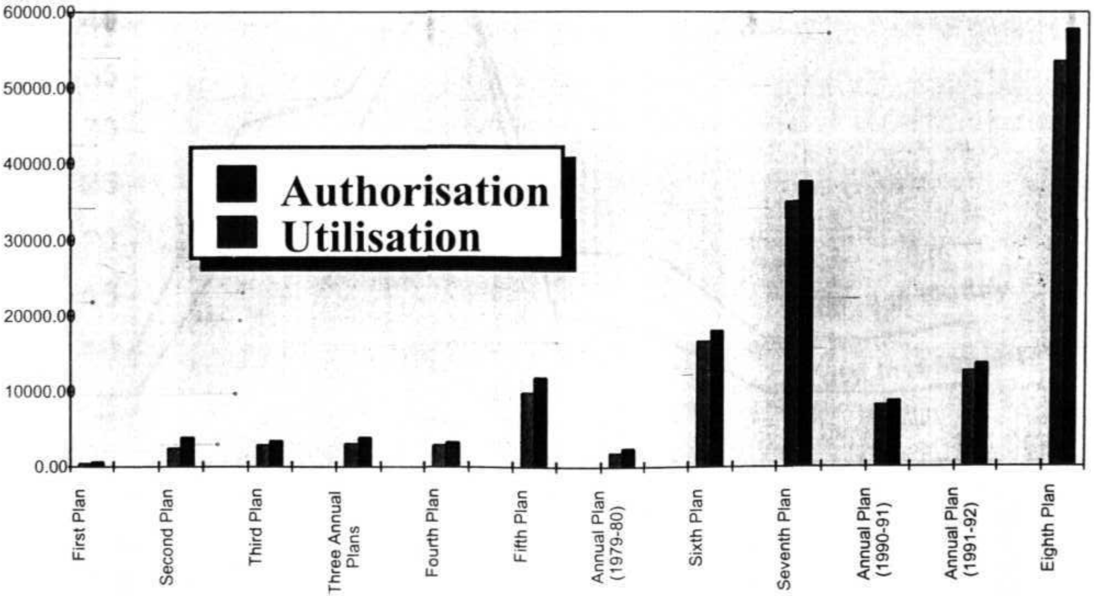
Disbursement of Foreign Assistance by States

State	Rs. Crores				Share in total (%)			
	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93	1993-94
Central Govt.	4237	6679	6100	6669	69.18	66.76	61.99	65.93
Andhra Pradesh	170	368	711	589	2.78	3.68	7.23	5.82
Maharashtra	212	339	487	528	3.46	3.39	4.95	5.22
Uttar Pradesh	462	767	376	439	7.54	7.66	3.83	4.34
Tamil Nadu	176	290	385	398	2.87	2.90	3.91	3.93
Karnataka	110	257	242	264	1.80	2.57	2.46	2.61
Gujarath	230	286	448	104	3.76	2.86	4.55	1.03
Kerala	36	61	61	95	0.59	0.61	0.62	0.94
Orissa	57	68	90	91	0.94	0.68	0.92	0.90
West Bengal	64	115	91	73	1.05	1.14	0.92	0.72
Rajasthan	0	4	30	66	0.00	0.04	0.30	0.66
Punjab	7	27	45	31	0.12	0.27	0.46	0.30
Madhya Pradesh	76	66	27	19	1.24	0.66	0.27	0.19
Haryana	23	29	9	17	0.37	0.29	0.09	0.17
Bihar	22	7	37	4	0.36	0.07	0.37	0.04
Jammu & Kashmir	0	0	0	0	0.00	0.00	0.00	0.00
Assam	0	0	0	0	0.00	0.00	0.00	0.00
Himachal Pradesh	3	9	25	0	0.06	0.09	0.26	0.00
Multistates	236	632	677	728	3.86	6.32	6.87	7.20
Total	6124	10005	9841	10116	100.00	100.00	100.00	100.00

Source : Balance of Payments, July 1996, CMIE p.34

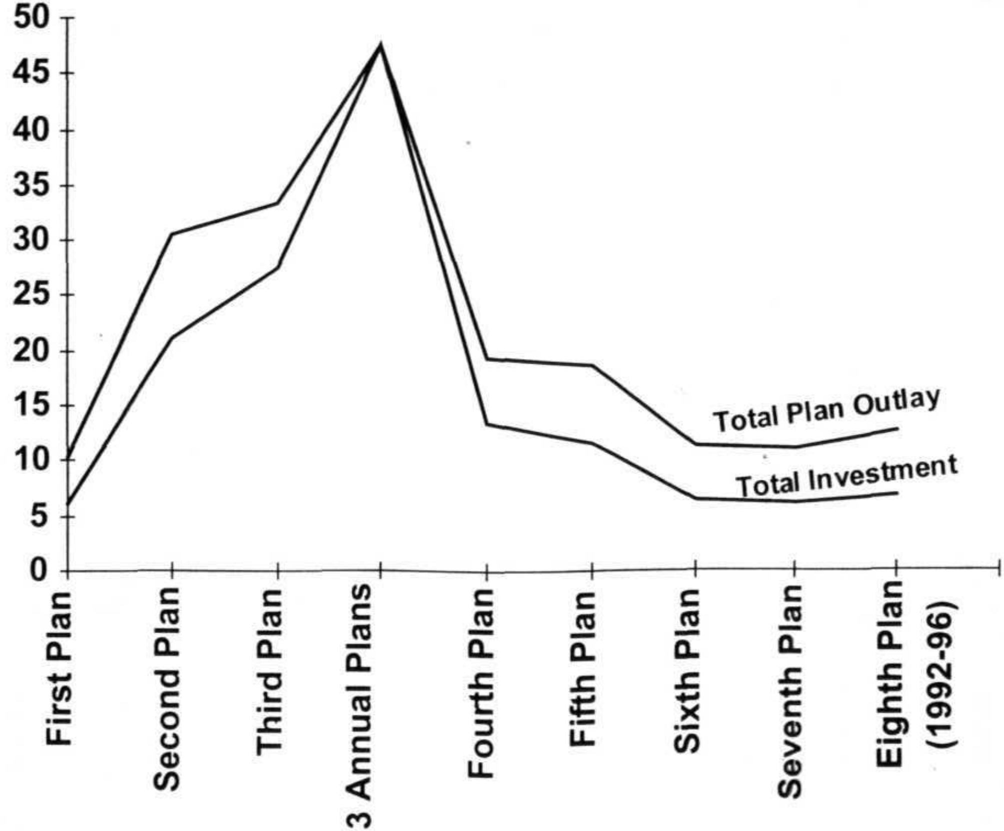
Aggregate External Assistance during Plans

(Rs. Crores)



Graph - 4.2

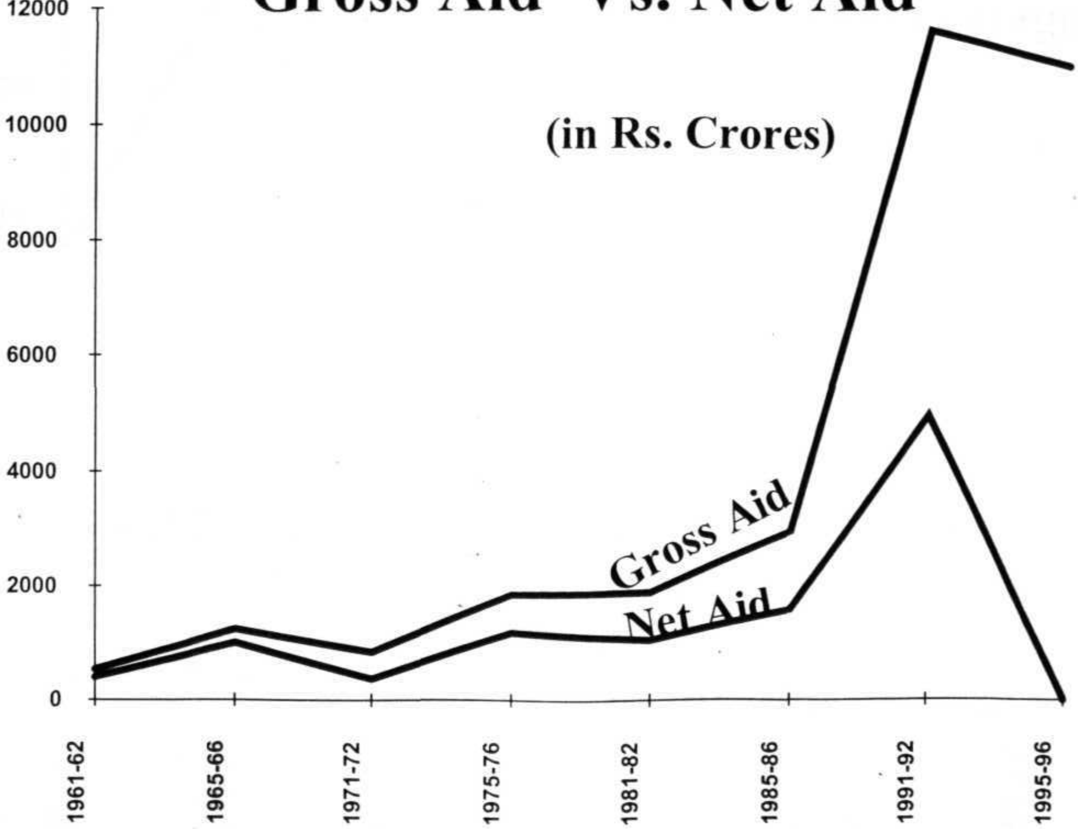
Foreign Aid as a percentage of Total Plan Outlay and Total Investment

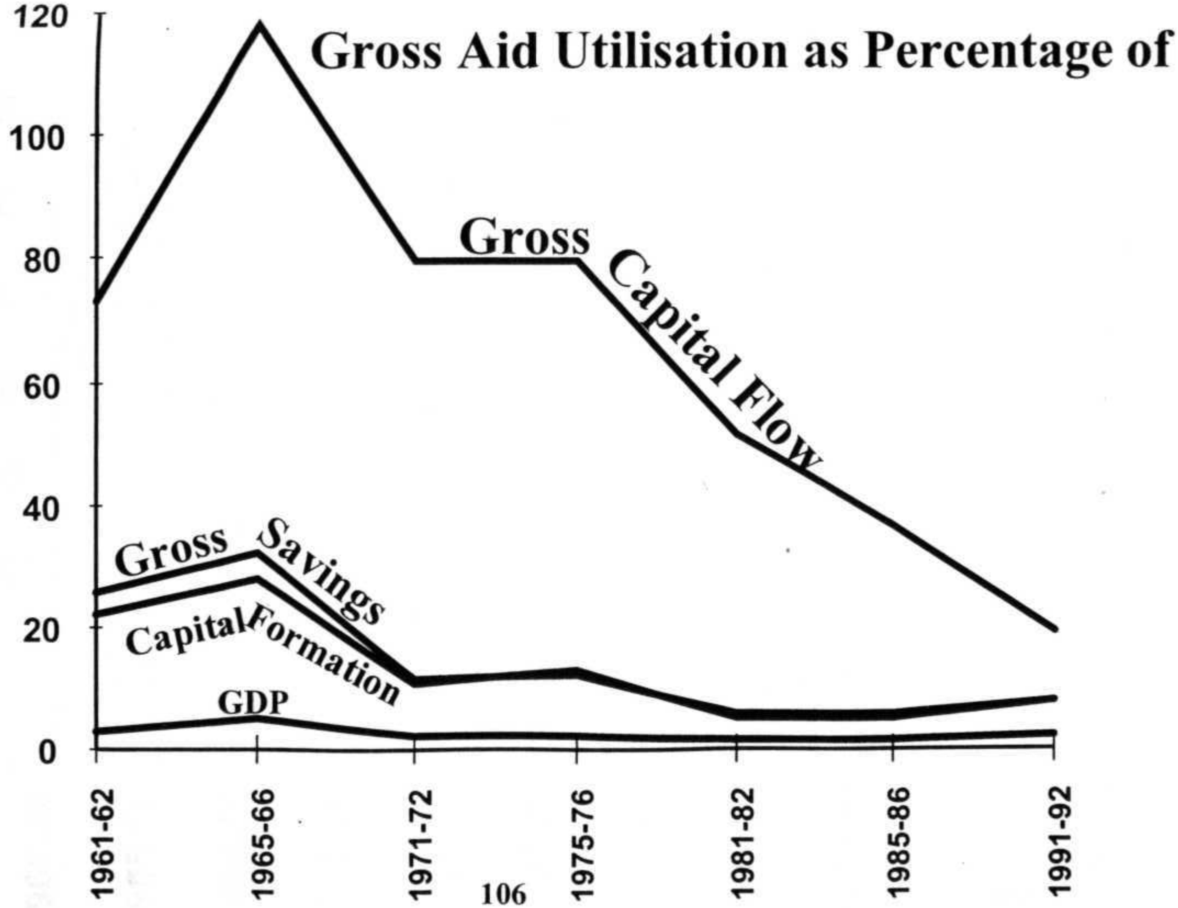


Graph - 4.3

Gross Aid Vs. Net Aid

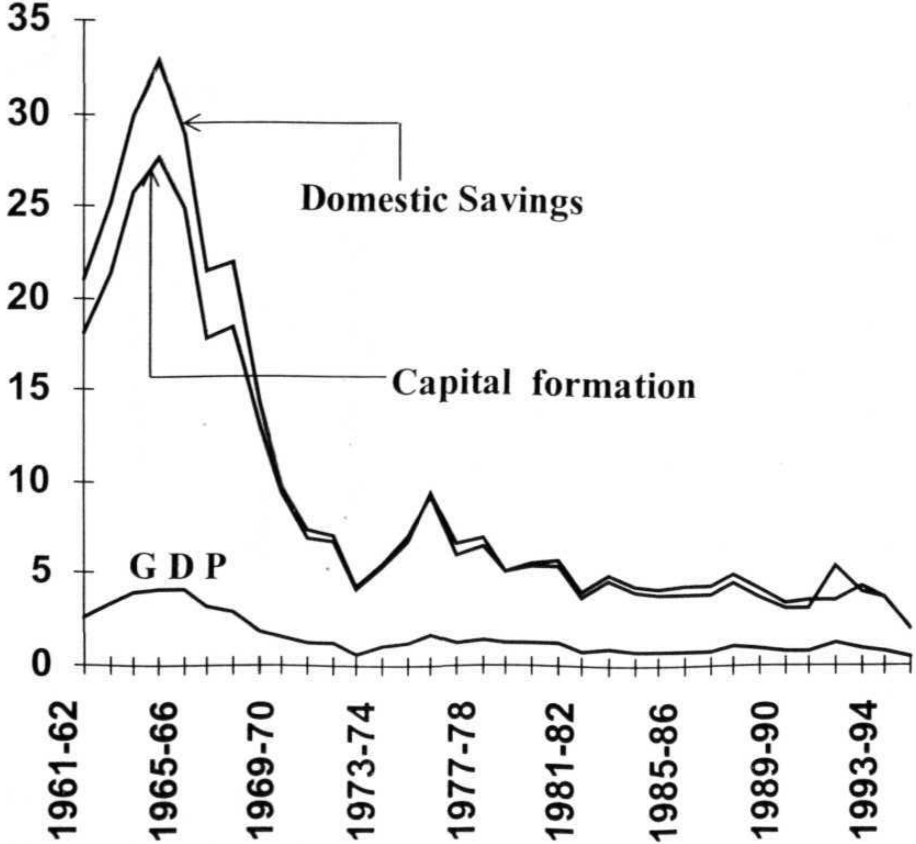
(in Rs. Crores)



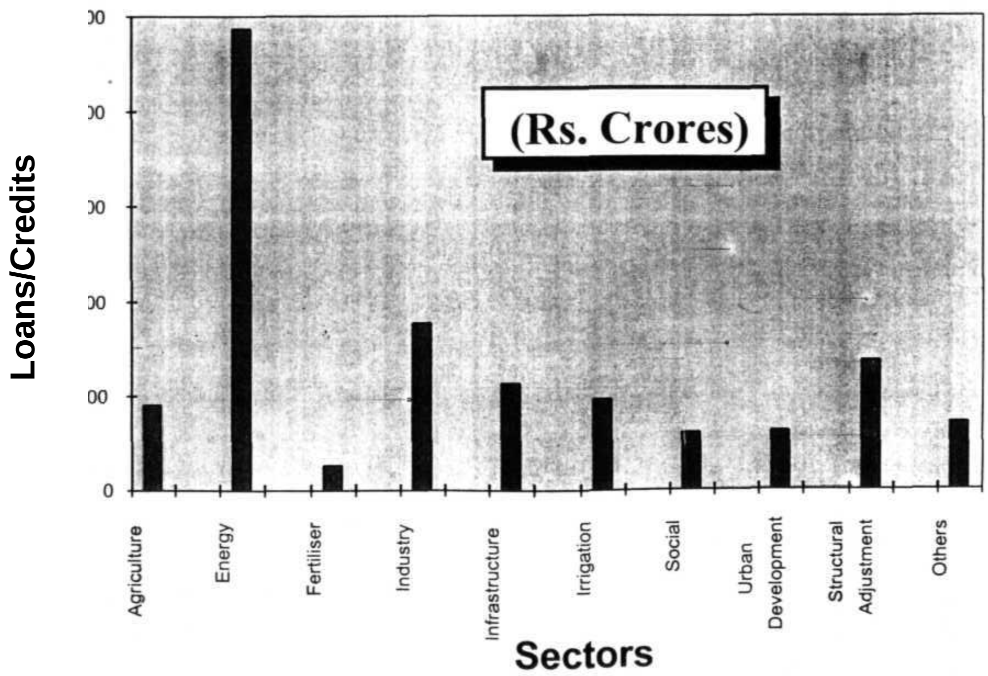


Gross Aid Utilisation as Percentage of
120
100
80
60
40
20
0
Gross Capital Flow
Gross Savings
Capital Formation
GDP
1961-62
1965-66
1971-72
1975-76
1981-82
1985-86
1991-92

Net Aid as percentage of



Purposewise distribution of ForeignLoans/Credits



CHAPTER V

The Role of Foreign Aid in the Economic Development of South Korea and Colombia :

Korea was colony of Japan from 1910 to 1945, Following Japan's defeat and surrender in the Second World War, Korea was divided into two parts. The south Korea, was put directly under the control of the American Military Government till 1948. A South Korean government was established in 1948 under Syngman Rhee, who remained in power till a Student Revolt forced him to resign and retire in 1960. A military coup in 1961 led by a Major General of South Korean army, Park Chung Hee, overthrew the government which succeeded Rhee. Park became the President and ruled South Korea as a dictator till his assassination in 1979[1].

The economic condition of South Korea in the 1950s was dismal. In fact when Park took over, the economy was passing through a severe crisis with decreasing growth and rising unemployment. Park initiated and implemented an economic strategy, which transformed the economy and achieved remarkable economic progress. In the 1950s, South Korea like India was a typical low income Third World country. Today she is way ahead. With a GNP per capita of US $ 8260 in 1994, she is closer to such high income countries as Portugal (US $ 9320) and Spain (US $ 13440) than she is to low income countries such as India (US $ 320) and Ethiopia (US $100) (World Bank, 1966, pp. 188-89). As in developed countries, the rapid growth has been accompanied by significant structural changes. Like the other Third World countries, South Korea was basically an agrarian economy around 1960 with about 68.3 percent of the work force depending for their livelihood on agriculture, forestry and fishery and only 1.5 percent on manufacturing. As a result of rapid economic growth, manufacturing became more important than agriculture by the late 1980s, with the former accounting for 27.7 percent of the employment and the latter 20.7 percent [2].

The pace and pattern of industrialisation in Korea since the early 1960s have attracted a good deal of attention from Scholars, policy planners and Journalists in developing countries, including India. This is not surprising. In a relatively short span of less than three decades, Korea succeeded in transforming its economy from a backward agricultural economy into a thriving industrial giant. The economy achieved remarkable growth despite several unfavorable circumstances a relatively small economy, poorly endowed by nature, a mountainous peninsula, high population - to - land ratio, and constant threats from its mighty neighbors requiring heavy defence expenditure[3].

During the twelve turbulent years of the First Republic (1948-60), the Korean State did intervene in other areas of the economy also. It had to cope with the devastating physical and social consequences of the three - years war [Korean war 1950-53]. Left with few options the state sought and obtained substantial external assistance in the post - Armistice Agreement period. The United States Aid Financed nearly 70 percent of total imports between 1953 and 1961 and 75 percent of total fixed capital formation. About three - quarters of all aid between 1953 and 1960 was in the form of commodity imports. One half of this was agricultural commodities with the rest going primarily to fertilizer and petroleum products. Only a small percentage of project related aid went directly to manufacturing. It is almost became imperative for the Korean state to encourage the processing of three main raw materials, the three whites, wheat, sugar and cotton, brought in as aid. However, the Korean State did exercise structural autonomy because it was largely relying an external aid instead of mobilizing internal resources which under the circumstances of a war ravaged economy became an almost impossible exercise. The Korean state used its power and authority to distribute the external aid which gave it an additional instrument to to intervene in the economic and political processes. It is also noteworthy that despite all the constraints and contrary to the generally held view of sluggish growth under the import - substitution regime, industry did well[4].

Economic development and elimination of corruption were assigned high priorities by the short-lived second Republic (April 1960-May 1961). It is however, not well known that the Chang Myon regime gave considerable importance to planned development efforts and the First Five year Plan was in fact unveiled days before the over throw of the government through the 16 May 1961 Military Revolution. It is also significant to note that the plan document spelt out the role of the state as ' Guided Capitalism ' and the plan stressed the need for a ' leading sectors ' approach that would concentrate investment in power, coal, cement as well as several other industries and agriculture. In other words the plan envisaged enhanced level of state investment and intervention in the economy. It may be of special interest to Indians to know that the Indian planning model and the structure of the planning commission with the Prime Minister as Chairman etc. seem to have impressed senior officials like Y. Geihong (Danny Lee) who were involved in the exercise of preparing an appropriate planning model and who had examined the available planning model[4].

The most powerful economic institution that was created to pursue the economic development plans was the Economic Planning Board (EPB). The supreme council for National Reconstruction (SCNR) adopted the earlier regimes Five

Year Plan on 22 nd July, 1961 with slight modifications. The plan was launched on 13 th Jan, 1962.

The EPB was given enormous powers commensurate with its responsibilities. It took over the Bureau of the Budget from the Ministry of Finance and the Bureau of Statistics from the Ministry of Home affairs. More importantly, it was given the responsibility of preparing the budget and coordinating direct foreign investment and foreign capital. What really distinguished the planning process in Korea from other developing countries was not so much at the level of formulation of the Plans but at the level of implementation. In other words, economic planning in Korea was characterised " by a high level of coherence between decision making and decision - implementation process 5. Under US influence between 1945-53, Korea had been exposed to the outside world and this exposure fueled rising mass expectations. This demonstration effect sparked off discontent and made economic growth a political imperative for stable government[6].

South Korea emerged from the partition of World war and the destruction of the Korean War economically devastated, bereft (robbed) of heavy industries and natural resources - a military and economic word of principal donors, the USA in the long run, however, its economic disadvantages were offset by non-economic factors - an ethnically homogenous population, linguist unity, the concept of primacy of mobility through education, and the principle of a meritorative state. Although moved in object poverty its people shared a remarkable equal distribution of the assets that remained because of the land reform inaugurated by the US military government the material destruction of the war, and the spread of Primary education[7].

Until 1961, the Korean economy followed a Policy of import substitution. It was completely dependent on donor support for food and consumption goods, as well as for raw materials and military assistance, Korean policy stressed the maximization of foreign assistance, including maintenance of an unrealistic set of foreign exchange rates that effectively prohibited exports, changes that donor support was concentrated on consumption goods and that the PL 480 food import programme retained realistic agricultural pricing policies, were generally accurate, as the policy goals of donor and recipient were different[1].

President Park, following the military coup of 1961 internally consolidated and centralised economic and political power and externally, perhaps in part to distance his government from the USA, shifted economic policy to an export promotion programme. Donor support was diversified with normalization of relations with Japan a critical element in the introduction of capital and technology. Foreign investment was encouraged, the first IBRD loan signed, and export targets rigorously set and meticulously enforced. President Park's concentration on the economy, which has able to control through administrative, political and social means, as well as through a government monopoly of institutional credit was exceeding effective. Korean growth of GNP, exports, overseas construction earnings and manufacturing capacity have attracted the admiration of foreign observers especially in the light of Korea's deft handling of crisis associated with the two oil price increases a world-wide recession and an excessive defence burden*.

The importance and effectiveness of the donor role have shifted overtime . For the first decade and a half after liberation, donor (essentially US) support was at first essential to the survival of the state and the modest growth that took place. Such support was eminently successful in land reform - although it never reached its full potential - but less so in other fields. Acrimonious disputes between donor an recipient marked economic policy negotiations[10].

The increasing success of the Korean export drive under President Park encouraged Commercial lending and foreign investment, so that concessional assistance is now extremely modest most of it only considered such by comparison with Korean Kerb market rates. The role of multilateral lending to Korea is considered by the government to be an important attraction for commercial lenders[11].

There is general agreement that since the early 1960s Korea has been an effective user of concessional assistance foreign assistance has been of varying importance and impact in different fields. Technical assistance personnel, despite problems with language and lack of knowledge of the bureaucratic culture, could be effective if they provided the technical means by which to implement effectively the pre-determined policy directions of the government training and human resource development were universally regarded as effective and are of the most important elements of concessional aid. Donor support has generally followed Korean government policies and priorities. Emphases have changed as government priorities have shifted, but (with few exception) donors have followed the government is head. Korea is not a model that can be emulated by other nations, but it has been in a very real sense a model user of foreign assistance. Although multilateral aid agencies have an edge in both prestige and flexibility over major bilateral donors, there is need for reform in both camps[12].

Beginning with the Second Five Year Plan in 1967, a formal system of annual planning was introduced to review and evaluate plan performance and to revise,-

where necessary, policy instructions and investment targets. Perhaps the most important difference between planning in Korea and in most other developing countries was the emphasis placed on the implementation of plans. This was done through a formal system of monitoring and evaluating performance introduced in 1962. If evaluation required agencies to take corrective measures, the Prime Minister's office directed them to do so. Moreover, the Presidential staff (The Blue House) directly monitored the implementation of some large projects. This system of monitoring kept the Ministers and office on their toes and helped in solving problems quickly. This was particularly true of the export sector[13].

The Korean policy was to import as much capital as was required for the implementation of planned investment and growth targets. The government was willing to run persistent deficits on the Bops current account to bridge the gap between domestic savings and overall financial requirements to achieve planned investment targets. A Foreign Capital Inducement Law as enacted in 1960 to encourage the inflow of foreign capital. In 1966, the law as amended to increase the attractiveness of foreign lending to approved projects.

The inflow of foreign capital was almost entirely in the form of loans and trade credits rather than direct investment, which was discouraged its value in 1978 amounted to only about 5 percent of outstanding external loans. This was done for 2 reasons: The relatively low cost of loans, and the reluctance of government to encourage direct foreign investment (DFI). Korea had easy access to foreign loans on relatively favourable terms because of its low debt burden and of its success in promoting exports. Government objection to allowing DFI was due to its reluctance to share the ownership and control of Korean enterprise with foreign, especially Japanese, enterprises. This policy prompted the government to impose formal, administrative barriers against the inflow of DFI[14]

The Korean Economic Miracle :

Korea achieved one of the highest growth rates in the world during the 1962-73 period. That rapid growth transformed the country from one of the poorest of the developing world, with bleak growth prospects, to one of the most dynamic. Over that period, per capita GNP in 1970 dollars rose from $ 150 to $ 343; Korea's Commodity exports grew from $ 55 million to $ 3,225 million (for an average annual growth rate of 45 percent). With an increase in the share of exports in GNP from 1.8 to 25.0 percent. That change was accompanied by the cessation of new foreign aid, which had financed more than 70 percent of commodity imports during 1953-1961, Over the same period, Korea's domestic savings rate rose from 1.6 percent to 22.9 percent of GNP. By 1973, 28.4 percentage of GNP originated in manufacturing and manufactured products constituted more than 90 percent of total commodity exports[15].

The table 5.1 explains the performance of first to five year development plans in South Korea. The GNP is growing at the rate of 7.8 percent in the first plan. In the second, third plan it is growing at the rate of 9.6 percent, 9.7 percent respectively. But during fourth plan the growth rate in GNP declined to 5.8 percent and again started raising during fifth plan i.e., 8.6 percent (1982 to 1986). The agriculture, forest and fishery is growing at the rate of 34.4 percent in first plan. It declined to 12.8 percent in fifth plan. The share of mining and manufacturing during the first plan was 21.1 percent and it increase to 30.1 percent in fifth plan. The increase in the commodity exports during the first plan was 6.8 hundred millions to 336 hundred millions in fifth plan. The commodity imports during the first plan was 6.8 hundred millions rose to 293 hundred millions. The gross investment rate to GNP during first plan was 21.6 percent and it rose to 29.5 percent in fifth plan. The domestic savings rate during the first plan was 11.8 percent and it rose to 32.5 percent in fifth plan. Employment population increase rate in first plan 3.8 percent declined to 1.9 percent in fifth plan. Unemployment population rate in first plan 7.1 percent declined to 3.8 percent in fifth plan.

In table 5.2 we can see the data relating to the net resource flows to Korean Economy from 1970 to 1994. During 1970 it was $ 411 million. It rose to $ 7445 million during 1994. During 1970s the debt outstanding was $ 1991 million. It rose to $ 40652 million in 1994.

The foreign direct investment (net) during 1970 is $ 66 millions it rose to $ 809 millions in 1994 (Table 5.2). The GNP in Korean economy raising faster than other aggregates. During 1970 it was $ 9080 millions and in 1994 it was $ 335672 millions. Regarding exports of goods & services, in 1970 it was $ 1379 millions and in 1994 it was $ 116228 millions. The Korean imports during 1970 were $ 2180 millions. In 1994 it were $ 121364 millions. If we see the current account balance during 1970 it was $ - 623 millions it rose to $ - 4532 million in 1994.

Table 5.3 explains the uses of foreign borrowings in the case of Korea from 1970-85. During 1970-79 the increase in total foreign debt was $ 18.6 billions. It rose to $ 26.5 billions in 1980-85. The foreign assets to this country during 1970-79 were $ 5.8 billions but it declined from 1981 onwards and again start rising from 1985 i.e., $ 1.1 billions during 1980-85 it was $ 4.9 billions. See graph 5.1

Domestic Savings as a proportion of GNP showed a sustained increase between 1981 and 1985. In 980, when GNP in real terms declined by 5.6 percent (see Table 5.4) because of the recession in Korea's major trading partners, along with a rice crop failure and domestic political unrest. The domestic savings - GNP ratio trembled to about 21 percent from just over 28 percent a year earlier. . It remained at that level for a year before starting to climb in 1982, reaching a level of 29 percent in 1985[16].

Broken down the sector, during 1980-85 the business sector accounted for the largest share of total National Savings, followed by household sector, which includes unincorporated firms, and then the government. The sharpest decline in sectoral savings occurred in the household sector in 1980, savings as a percentage of GNP plummeted to 6.6 percent from 11.7 percent in 1979. For the next three years the ratio remained below the 7 percent level. But it shot up to 10.6 percent in 1985. During the same period business savings as a proportion of GNP fluctuated between 9.5 percent and 11.1 percent. The seemingly high variability in the behavior of household savings might be attributable to the instability in agricultural inventory holdings and the large fluctuations in the profit earnings of unincorporated forms. Smoothing of consumption in the face of a recession is also an important consideration[17]. The Second development has been the significant shift in investment resources (see Table 5.5) to service industries since 1980. Manufacturing's share in total investment declined an average of almost 5 percentage points during the 1980-84 period compared with its average in the proceeding ten years from 1970 to 1979 manufacturing investment accounted for 21 percent of the total, a share that had been stable.

Table 5.6 shows the foreign capital in the form of loans which was disaggregated as public, commercial and direct investment. If we see the data the flow for commercial purpose is greater than public. Direct investment is very low in percentage see graph 5.2

The Korean experience is also regarded as being exceptionally successful in combining rapid growth with advancement in equity, while increase in employment is considered the most important contributor to the growth of income of the relatively poor. In conjunctions with economic progress, Korea made "stunning advances" in improving the level of education and in providing facilities for the provision of health, sanitation and safe water. No wonder this transformation is often hailed as the ' Korean economic miracle ' [18].

Controversy on Korea's success story :

The spectacular growth and economic transformation has given rise to an animated debate on the major factors that have contributed to the Korea's success story. Some economists argue that it reflects the virtues of the free market forces. They also contend that the Korean example shows the superiority of outward - oriented industrialisation strategy over import - substitution Larry Westphal for example, believes that Korea provides a classic example of an economy reaping the gains of comparative advantage as suggested by conventional economic theory. The leading market forces have been a group of monetarists who believe in Milton Fredman's economic philosophy of Laissez - faire and include economists from international financial institutions, notably the IMF and the World Bank. They relate Korea's phenomenal growth to the operations of market forces, or the working of Adam Smith's ' invisible hand '.On the other hand, some others argue that far from being a triumph of neo-classical laiseez - faire, the Korean miracle is the product of authoritarian paternalism of a virtual confusion state in which the government pervaded the economy. The principal advocates of this view are neo keynesian economists, especially those engaged in research on comparative political economy[19].

Factors underlying the Korean Miracle :

A host of reasons have been cited for the impressive growth of the Korean economy. The most important of these are historical factors, the confusion, ethos which provided a disciplined and diligent work force, the increasing role of market forces, and above all, successful government intervention in the economy.

Soon after the election of President Park in 1964, major policy reforms were implemented as part of an export oriented growth strategy. Korea had the fortune of having a strong, competent and determined government that steered its reform package through persistent intervention using both the carrot and the stick. As explained below, it was a successful manipulation of market forces by the state, which was the prime mover in the economy, that helped Korea achieve spectacular growth and to become a significant exporter of manufactured goods on a global **scale.**

The **role** of **state** in determining development strategy and its involvement and intervention in achieving the desired economic goals is a fundamental issue confronting all developing countries. The pragmatic and successful state intervention by determining the pace and pattern of development in Korea provides an interesting insight[20]

Indo-Korea Economic Relations :

Developed countries are the major trading partners of Korea. In 1987, USA and Japan together accounted for 54.7 percent imports and 56.5 percent of exports. Developing countries have a relatively very small share while Indonesia, Malaysia, Taiwan, UAE, and Brazil are the important suppliers, Hong Kong, Indonesia, Malaysia, Singapore and Thailand are the major buyers of Korean exports. India's share, though still a modest one, has improved marginally in recent years. India's exports as also imports, have shown an upward trend, as indicated in the table 5.7 and see graph 5.3.

India's exports to Korea as shown in the table 5.7 , have recorded more than a four fold increase in the eighties. Imports have also increased but the growth rate is slightly lower. Imports have always exceeded the exports and in the year 1989-90, India's trade deficit with Korea recorded an all-time high figure of Rs. 359 crores.

Commodity-wise analysis see table 9 indicates that iron ore is the largest single item of export accounting for more than half of the total exports. Leather and Leather manufacturers, raw cotton, cotton yarn, silk yarn and fabrics and coffee are other major items. A significant development of recent years is that a few new items, Oil meals, Cashewnut shell liquid, chemicals - both organic and Inorganic, dye Intermediates, drugs and Pharmaceuticals, plastic and linoleum products and engineering goods, which include computer parts, electrical and electronic goods and aluminum products have been in the Korean market.

On import side (table 5.9) artificial resins and plastic materials, cellulose easters organic chemicals, textile (mostly mixed) Yarn, fabrics and made-ups, steel and steel products, non-ferrous metals, metal manufactures, electrical machinery, electronic items - TV components, Video tapes and Cassettes, VCR, VCP components are the important items of import.

Table 5.10 shows the Korea's trade with India. Since 1981-90. In 1981 the total trade of Korea was only \$310 million but in 1984 it increased a lot i.e.; \$1429 million. In 1990 it was \$ 718 millions. The exports from Korea was higher than imports. See graph 5.4

Conclusion:

In 1950s, South Korea was a typical iow income developing country. But the economic policies of the 1960s and 1970s transformed the economy and made it one of the fastest growing economies of the world. The government played very important role in this strategy. The government under President Park decided the important economic activities to be promoted and mobilized and directed resources accordingly. Allocation of resources were not left to the market mechanism. To promote the targeted industries and activities, the Government relied not only on price incentives and subsidies. It intervened directly using various non-market instruments. Park was a pragmatic man, as such neither against Korean private enterprise nor against public enterprise. In fact he relied significantly on Korean public enterprise for translating the plans into action. He also promoted public enterprises whenever necessary. But private business was expected to operate in close association and under the leadership of the government. Again, export promotion and import substitution were not considered on two alternative and conflicting development strategies. South Korea emphasized exports. She also developed industries which not only substituted imports but also subsequently helped export generation. South Korea shows how both can be pursued and how one aids the other.

South Korea's very special position in the international political system also contributed to the success of her economy strategy. South Korea was basically created by USA as an anti-Communist buffer state for the protection of her security and strategic interests in the area. South Korea was an economic beneficiary of such a neocolonial dependent relationship. USA was indulgent towards South Korea and provided support in different forms. USA's involvement provided opportunities to South Korea for her economic development which were not available to most other developing countries. South Korea received enormous amounts of US aid while much of it were unproductive, it helped investment in infrastructure, especially education. Due to American influence, education facilities at all levels - elementary, high school, vocational higher education - were greatly expanded. As a result of the literacy rate increased from about 22 percent in 1945 to about 72 percent in 1960. Thus South Korea started her industrialization with a much more educated labour force. Absence of land reforms has been a major hindrance to the development of poor countries Successful land reforms initiated by the Americans destroyed the power of the land lords and facilitated capitalist development. Preferential access to the US market was an important factor behind South Korea's export success. South Korea relied heavily on foreign borrowings to finance her development. It was generally felt that USA will not allow South Korea to fall into default on debt payments. In the absence of America backing, it is unlikely that the international financial community would have had faith on such a small and poor country especially in the earlier years.

Foreign Aid to Colombia :

In the mid - 1500s Colombia was a Spanish Colony. Spain wants to draw its precious metals and initially it concentrated its economic activities on mining gold and copper. But later it put more emphasis on agriculture. At the end of 18th Century, Sugar and Tobacco had become major exports of Colombia. Colombia achieved independence from Spain in 1819 with the defeat of the Spanish forces by the armies led by Simon Bolivar[1].

Colombia is a land of immense beauty and geographical and economic diversity, located on the north-west corner of South America. It is the fourth biggest country in Latin America, with the third largest population in the region, with three Andean ranger, two Coastlines, vast plains and jungles that divide the country into district regions. It is endowed with rich agricultural land as well as large proven reserves of oil, coal and precious metal and stones[2].

Unlike most of its neighbours, the country is a nation of cities, with the majority of its population concentrated in cities located in the interior narrow valleys and basins formed by the three ranger of the Andes that divide the country from north to south and the tropical lowlands. Approximately 98 percent of the population is concentrated in this area which makes up 40 percent of the country's land mass. The remaining 2 percent lives In the sparsely populated plains and jungle which account for the remainder of the country. The rugged terrain and evolving transport system have served to reinforce social and geographical differences with regions evolving disting economies[3].

At the beginning of this century the country/s population was a mere 4 million, which by the middle of the century has trebled to 12 million and now stands at over 34.9 million, making it the third most popular country in Latin America, after Brazil and Mexico. The country's population is young, with 54 percent of the total - equivalent to 18 million people under 18 years of age life expectancy has grown from 45 years in the 1950s to 64 years in 1970 and is currently just under 70[4]. Population growth in the 1980s averaged 2.1 percent and is now just below this at 1.85 percent level with Chile and slightly above Argentina. The country's population is projected to increase to 39 millions by the year 2000[5].

Although Colombia is an urban country with 72 percent of its population or 24 million people living in urban areas compared with 9 million rural inhabitants, most other Latin American Countries are more urbanised with the most urban being Venezuela with 91 percent of its population living in Urban areas increased from 31 percent in 1938 to 60 percent in 1973, and to over 70 percent in the 1990's mainly the result of massive rural - urban migration to the four largest cities. Santafe de Bogot's (5 million), Medelli'n (2.4 million), Cali (1.8 million) and Barranquilla (1.4 million), which account for a third of the country's population. The population is composed of diverse ethnic groups, including indigenous Indians, Spanish other European, and African descendants[6].

Colombia has one of the best educational systems in Latin America with a literacy rate of 91 percent which has produced a competitive and relatively highly educated work - force. The country does lag behind some of its Latin American neighbours in literacy rates such as Argentina, Mexico, Chile and Uruguay. Primary education is compulsory, while secondary education, university and post graduate education are available on demand. Public expenditure on education represented 3 percent of GNP. Public expenditure in Colombia on education was well below the average of similar Latin American countries, whereas private expenditure was higher than in comparable nations[7].

The Colombian case is a particularly interesting one for at least three reasons. First, as a 'show case' for the Alliance for progress in the 1960s and early 1970s, Colombia was one of the major Latin American recipients of international assistance from such organisations as USAID, the World Bank and the IDB. Second, as a result of its impressive growth record during the late 1960s and early 1970s, in 1975 Colombia graduated from USAID concessional programmes. Third, although deeply affected by the 1979-83 Global economic slowdown and recession, Colombia managed to weather the 1982-84 debt crisis in much better shape than most of its Latin American neighbour [8].

The principal aid agencies operating in Colombia - the World Bank, USAID and the IDB - each made major financial contributions to Colombia's development. The World Bank has been the principal international agency functioning in Colombia. Since the early 1950s, providing the country with $ 4.6 billion in resources over the past thirty - five years, versus the IDB's $ 2.6 billion, and USAID's $ 1.6 billion for the same period. The World Bank also performed an important fund - raising function among the consultative group members, beginning in the early 1960s and continuing through the present. The IDB has been a key member of the consultative group since its inception in 1961, and remained an active member in 1984 USAID played a prominent role In Colombia during the 1960s - the peaceful days of the alliance for progress - but gradually declined in importance in the early 1970s and was finally phased out after 1975. It is no longer an active member of the consultative group*.

With Colombia's 1975 graduation from USAID programmes, both the World Bank and IDB became even more important to Colombia as sources of external financing than they had been previously. During the six years between 1978-83, for example, the World Bank lent as much to Colombia as it had in the previous twenty - nine years of operation to the country. The decline of concessional US resources flowing into Colombia was made up by growing reliance on borrowing from the international commercial banks (on shorter terms) and at significantly higher interest rates[10].

Each of the agencies conditioned their projects, programme, or sectoral lending on specific steps designed to stabilize the Colombian economy, increase the fiscal soundness of the government relieve balance of payments problems and bring prices for government service (for example, water, electricity, transport) or government regulated prices (for example, petrol, food) into line with real costs of production and delivery. They have sought to strengthen and make more efficient major government spending agencies such as the Ministry of Public Works (obras Publicas), the Agrarian Refor Agency (INCORA), the National Planning Department (DNP), and a number of decentralised institute. The Annual memorandum of under standing between the Colombian government and the World Bank institutionalized after 1965, and the Projects list prepared annually for the consultative group since 1969 have been important levers to pressure Colombia to adopt fiscal and macro-economic policies in a more timely fashion. While Colombia has from time to time resisted some of these conditions, the resulting availability of foreign credit has enabled the Colombian authorities to expand their development programmes beyond what the country could otherwise have afforded hence they have generally been willing to accept them[11].

The lending provided by the major donor organisations was used primarily for large, individual infrastructure projects (such as railways, highways, airports, electrical power-generating capacity, land irrigation and reclamation, telecommunications facilities, and industrial plant). In the late 1960s and 1970s, considerable effort also went to strengthening the institutional capacity for planning and implementation of development projects. From 1973, there was a growing emphasis, particularly in the World Bank on addressing the problems of the poorest segments of Colombian Society through support of IRDPs land Colonization, rural electrification and expanded education opportunities for low - income populations in both rural and urban areas. By the late 1970s these projects began to pay off in terms of significant improvements in the standard of living in Colombia's poor. Even with the financial support and institution building efforts of the international development agencies, however Colombia has not been able to escape the economic recession and debt crisis that convulsed Latin America in the 1982 - 4 period. The crisis arrived later however, and has not been as severe as those experienced by Mexico, Brazil, Argentina and Chile. Thus in comparative perspective, Colombia is relatively better - off than its neighbors. Nevertheless by late 1984, Colombia was in very difficult economic straits, and seemed likely to adopt an IMF - austerity programme, either formally or informally in the near future.

The principal international agencies working in Colombia each played major roles in the process of developing the country's public sector institutions over the last quarter - century. The World Bank took the lead in this area in the 1950s and 1960s and remained the major institution builder over the 1970s and early 1980s. With the phasing out of USAID after 1975, both the IDB and UNDP (and such specialized UN agencies as the FAO, UNESCO, and the ILO) have played important complementary roles to the World Bank in the areas of feasibility studies and technical assistance[13].

In 1972, a major World Bank report declared 'the biggest problem in Colombia, to which every major Bank report on the country has pointed, has been and remains widespread, and in places desperate, poverty in the country side'. By August 1983, however, the World Bank was able to point to major improvements in the conditions of the country's rural and urban poor. ' Over the past two decades, Colombia has achieved significant gains in the standard of living of its people...(the country's) economic performance has been especially impressive because a wide cross section of the population in rural areas and in the urban centers, has been able to share the fruits of development more fully than in many other developing countries[14].

Three basic factors explain Colombia's remarkable success in reducing or alleviating poverty over the 1970s. First, sustained economic growth and declining birth rates combined in the 1970s to produce significant rises in percapita income and real wages, especially in the latter half of the decade. Second, many of the redistribution efforts undertaken by Colombia in the late 1960s and early 1970s only came to fruition in the 1975 - 80 period. Finally by 1973 the World Bank - led by Bank President Rober Mc Namara - Shyted lending priorities toward greater emphasis on the third world poor[15].

Prior to 1973, World Bank lending concentrated primarily on infrastructure development, and systematically emphasized urban over rural areas. Indeed, In the 1960s the Bank was sceptical of land reform, and did not support Colombia's agrarian reform programme. After 1973, the Bank began directing its lending towards the urban and rural poor under President Misael Pastrana (1970-74) and subsequently President Al fonso Lopez (1974- 78), land reform was eventually abandoned and government policy redirected towards increasing levels of production and productivity in the traditional or peasant sector and nutrition levels among the rural and urban poor. Since 1974, the world bank has provided substantial assistance to the Colombian government nutrition programme (PAN), integrated rural development programme, rural electrification, rural secondary schools, and rural roads. Reflecting the shift in the World Bank, IDB lending over the 1970s also focused increasingly as projects like rural electrification to benefit the rural poor. By the early 1980s, these projects had dramatically improved public services in both the rural and urban areas thereby helping to raise overall standards of living among the poor. In the context of the 1981-85 recession, the servicing of Colombia's mounting foreign debt has become increasingly serious problem for the country and has forced major cut-backs on government investment in social and economic development[1]'.

Economic policies 1948-58:

At the beginning of the post-world war II period, agriculture dominated the Colombian economy, producing more than 40 percent of GDP. Coffee, the main export crop, accounted for 70% of all exports, oil and other exports, including minerals, followed by other agricultural products (Sugar, bananas, and Tobacco). Intermediate and capital goods constituted about 85% of imports and consumer goods accounted for about 15% . The political and entrepreneurial, class had realised that the country relied too much on coffee and that it should diversify exports by expanding the 'minor' exports. Despite the decline in the importance of Coffee. The vagaries of extra price were responsible for most of the external shocks to the economy during this period. Government interventions, ranging from foreign trade restrictions and factor and product markets regulations to direct involvement in industrial and commercial enterprises, pervaded the economy favourable coffee prices prevailed most of these years, and the economy grew until 1956[17].

The Valencia Presidency : 1962-66.

Immediately after taking office, Valencia administration had to carryout two unpopular measures. In Nov 1962 it instituted sweeping imports controls in response to the growing payments problems and devalued the peso with the rate applicable to most imports moving from 6.7 to 9 pesos to the US dollars. As a result, the GDP growth rate fell down from 5.4 pc in 1962 to 3.3 pc in 1963 and inflation, as measured by the GDP deflator, surged to 23 percent, up from 7 percent in 1962. As the economy deteriorated, political unrest increased, and the population blamed the devaluation of its economic problems[18].

In response to the economic crisis, the government made some drastic changes to its economic policies. As part of an IMF stand-by agreement, it liberalised imports, devalued the Peso in a round about way - by 50 percent and took other measures to stablise the economy. The liberalisation gathered momentum and by OCT. 1966, 80% of all imports did not require import licenses, compared with 15 percent during 1965. The economy responded well to the policy changes and greater imports and helped by a recovery of agriculture, GDP grew above trend rates[19].

In the liberalisation and the economic boom soon came to an abrupt and while exports grew sluggishly, the private sector launched a unmassive speculative import boom. As world coffee prices declined, starting April, 1966, export earnings declined, the current account turned negative and international reserves fell sharply. The IMF pressed for a devaluation in exchange for a recommendation of payment support with the experience and political consequences of 1962 devaluation still fresh in its mind, the government refused to proceed in that direction. In the meantime, the expansion in the private sector credit accelerated inflation. The government lowed to the demand of the coffee producers, who requested Central Bank Credit to help them weather the decline in the international prices. Foreign borrowing financed the fiscal and the current account deficits and supported the exchange rate policy[20]

Because the government (Lleras Restrep Presidency 1961-70) succeeded in stabilizing the economy, optimism revived and economic growth returned. After the initial increase in restrictions, the government began to liberalise trade gradually, helped by the new exchange rate policy and sound macro economic management. The Government had reduced the bias against exports when it depreciated the peso and when it gave direct incentives to exports. A 3 year development plan presented in December, 1969 set out export promotion as a policy goal and a flexible exchange rate as the means to achieve it. The economy given steadily throughout the 1970s and import liberalisation proceeded at a gradual pace until the early 1980s clearly, Colombia had handled the crisis of 1966-67 well [21].

Sustained growth and higher inflation 1970-75 :

Although economic growth continued during the 1970s, it was rocked by some major shocks. Thus eventhough GDP increased more than 4 percent per year and rural and industrial real wages rose steadily, inflation, triggered by monetary financing of the Government deficit, continued unabated and prices rose by more than 20 percent per year. The sharp rise in the world price of coffee in 1975-77, in particular had a long - lasting effect on the economy.

The Coffee Boom 1975-79 :

In mid-75 world coffee prices increased sharply. It stimulated coffee production in Colombia. As Colombia's export volume and World Coffee prices increased, it soon developed a current account surplus and was able to build up its international reserves. The consequent increase in real incomes pushed up demand for domestic goods and services and produced inflationary pressures[23]

During this period (1975-79), the expanding narcotics trade also contributed to rising prices and international reserves. Colombia, a small exported of marijuana and cocaine in the early 1970s, became the leading exports of processed narcotics in Latin America. Drug activities increased Colombia's foreign exchange earnings and domestic expenditures, and expanded the illegal shadow ' economy. The income of the drug business bred corruption, spread violence and threatened the fabric of social and political life[24]

The national integration plan come into existence in 1978 is set out to stimulate the economy, generate employment and improve the country's infrastructure. The government also vowed to make large investments in the oil and minerals sectors. The plan therefore called for a large increase in public investment in infrastructure, to be financed in part with foreign loans. The combination of foreign loans and coffee revenues (the coffee boom lasted longer than expected) along with the proceeds of the narcotics trade made international reserves rise to unprecedented levels -15 months of imports during 1982. The consolidated public sector (CPS) deficit jumped from oil percent in 1982. After falling in 1978, Inflation returned to its previous levels. The peso appreciated In real terms and discouraged non coffee exports[25]

The end of the coffee boom and onset of recession : 1980-83

The current account recorded a surplus until 1980, but as the coffee boom ended and world interest rates rose this turned into a deficit which reached 4.7 percent of GDP in 1981 and 7.4 percent 1982. To make matters worse, economic growth trembled after peaking in 1978 at 8.5 percent, **GDP growth fell** to 5.4 percent in 1979 and continued falling until (1982 when it hit a record low of 0.9 percent). In Oct. 1982, the government declared an ' economic emergency ' and set out to battle the recession and the financial crisis. The **adjustment** measured that it finally implemented involved strengthening import restriction and foreign exchange controls. By early 1984 the government **had prohibited** imports of one - sixth of all goods in the tariff schedule and had placed all **but** less than 1 percent of the remaining goods in the prior licensing list. In response to these measures, the trade balance improved in 1984, but the capital account deteriorated, largely because of capital flight. International reserves fell 1.8 **and** 1.2 billion dollars in 1983 and 1984[26].

Table 5.11 clearly explains the net capital movements from 1950 to 1994. During 1950-65 the net inflow of capital was $ 34 millions. During 1966-73 the net inflow increased to $ 289 millions. Since then it started increasing and became $ 2182 million in 1982. During 1983-89 the net inflow declined to $ 879 million and became negative during 1991. Since then it started increasing. The same table also explain the share of net capital in GDP. During 1950-65 it share was 0.8 only. It roused to 4.0 percent in 1966-73 and started declining in 1974-76 i.e., 2.4 percent. During 1981 and 82, the share of capital inflow was 5.4 percent and it declined to Oil in 1990-91. During 1992-93 the share was 2.4. The inflow of foreign direct investment during 1977-81 was $ 144 million **and** it started rising since then. During 1990 it was $ 500 million and during 1992 it was $ 790 millions.

Table 5.12 clearly explains Colombia's external debt and resource flows from 1975 to 1995. Under the composition of net resource flows the official **grants** during 1975 and $ 18 million and rose to $ 50 million in 1995. The official creditors provided $ 111 million in 1975 later it declined to $ 157 million in 1995 During 1975 the Foreign Direct Investment is very low i.e., $ 37 million it rose to $ 1200 million in 1995. The same table explains the World Bank commitment and disbursement of loan during 1975 it disbursed $ 106 million during 1985, the country is in debt crisis so it incurred more aid $ 590 million then it declined to $ 238 million in 1995. The table also explains the total debt outstanding and disbursed is $ 3758 million in 1975 and it rose to $ 19784 million in 1995. The total debt service during 1975 was $ 314 millions and it rose to $ 3431 million in 1995.

Table 5.13 clearly explains about the contribution of net external financing to gross domestic investment. During 1970 its contributions to GDI is 24.7 percent it declined to 3.3 percent in 1980. And it again rose to 38.3 percent in 1982 and became negative during 1986,1987, and 1990,1991,1992. During 1994 the contribution of net aid to GDI was 19.5 percent (see Graph 5.5). This particular table also explains about the other macro aggregates also which are in absolute numbers. The explanation for the same aggregates in percentage can be seen in Table 5.13.

Table 5.14 explains the GDP growth rate in the Colombian economy from 1976-93. The growth rate during 1976-81 was 3.3 , 1980-81 it is 1.0. It started increasing during 1993 i.e., 4.9 percent. The percapita GDP (1980 dollars) during 1976-81 was 1225 and it increased to 1518 in 1993.

The same table also explains the changes in investment. During 1981 the percentage of investment was 18.3 till 1982 it was increasing since 1989, it started declined. In 1991 the investment is 13.3 percent. In 1993 it was 21.7 percent. Regarding domestic savings in 1981 it was 19.4 percent and so, in

1993 it was 25.1 percent. The percentage of exports of goods 11.9 in 1981 and it increased to 18.3 percent. The imports of goods during 1981 is 11 percent and during 1993 it is 16 percent.

Table 5.15 explains the total interest as a percentage of exports of goods and services. During 1986, it was 20.5 and during 1994 it declined to 13.1. **The** same table explains about the total disbursed external debt as percentage of exports of goods and services. During 1986 it was 248 percent and it declined during 1993 to 186 percent. The total external debt in GDP was 47 in 1986 and it declined to 32 in 1993.

Table 5.16 clearly explains the structure of the Colombian economy. During 1975, the contribution of agriculture as percentage of GDP is 23.9 and it declined to 18.6 percentage in 1995. This denotes there is a drastic change in the structure of the economy. The economy transferred from agriculture dependent to industry oriented. The industrial production as a percentage of GDP in 1975 is 29.2 percent, in 1995 it is 28.4 percent. The service sector is contributing more to the GDP i.e., 53% in 1995. The table also explains the balance of payment position. The resource balance during 1975 is $ 98 million but in 1985, 1994 and 1995 it was $ 347 million, $ -2204 million, $ -2591 million respectively. It shows us Colombia is suffering adverse balance of payment.

Table 5.17 explains, the key economic ratios in the Colombian economy. The economic development of Colombia can expressed in the form of GDP. **In 1975,** the country's GDP is $ 13.1 billion, it rose to $ 79.3 billion in 1995. The **ratio of** Gross Domestic Investment to GDP is 17% in 1975 and it rose to 22.6 percent in 1995 while seeing the data relating ratio of savings to **GDP** it is **16.4 percent in** 1975 and it declined to 16.1 in 1995. During 1985, the ratio of total debt to GDP is 40.8 percent very high. The country is in debt crisis in this period. Colombia has had relatively stable savings and investment rates, which were affected mainly by changes in government saving and investment, rather than by changes in private sector saving and investment. Between 1950-91 total savings varied between 14 and 22 percent of GDP and investment between 15 and 22 percent of GDP (see Graph 5.6). Eventhough Colombia ran current account deficits for most of the period, the country managed to avoid long and catastrophic balance of payment crisis. Only with the collapse of Coffee prices and the resulting large arrears accumulated during 1954-56 did the balance of payments problems reach crisis proportions. The government responded decisively (devaluating the Peso, cutting the fiscal deficit and reducing import though quantitative restrictions and succeeded so well in meeting the crisis that reserves rose to $ 264 million (see table 5.18) or eight months of imports in 1959. Another payments crisis developed in 1962, but again the government devalued and reduced the fiscal deficit and thereby prevented a more serious turn of events. An ambitious import liberation programs triggered a speculative demand for imports in 1965-66 and generated a loss of reserves. By the end of 1966 Colombia's net reserves had turned negative, reaching $ 95 million. After Colombia adopted the Crawling peg system in 1967, however, international reserves began to accumulate as moderate capital inflows offset the current account deficits. By the end of 1975 these reserves totaled $ 547.3 million equal to five months of imports. Booming coffee prices and growth of other exports (illegal exports included) produced a current account surplus between 1976 and 1980 (see table 5.18). Government borrowing abroad supplemented the growing reserves, with the result that Colombia ended 1981 with $ 5.6 billion of international reserves, or sixteen months of imports. When the export boom ended, debt-services payments rose (from a low 12 percent in 1977 to about 35 percent in 1983). The current account deficits then soared and exceeded 7 percent of GDP in 1982-83.

Evenafter Colombia graduated out of US concessional aid in 1975, it was one of the Latin American's 'success stories' in the 1970s, achieving substantial and well-distributed growth, with major increases in employment and reductions in poverty and population growth. These achievement have been attributed to successful domestic policies and management, as well as to contributions by the donors in policy dialogue and poverty oriented lending. Assistance for institution building, and for public sector management and pricing, has also been considerable.

Conclusion :

During the past 40 years the Colombian economy was grown steadily, a remarkable accomplishment in light of the performance of other countries in the region and the country's volatile political climate despite several economic stresses and several occasions, the country avoided hyper inflation, prolonged recession and a major foreign debt crisis Colombian society and the nature of economy changed substantially during this period.

Despite serious economic crisis of the past 3 decade, Colombia managed to avoid any prolonged economic disruption. But it was unable to match the high growth rates of successful Asian economies during this period. It withstood Asian economies during this period. It withstood the 1966-67 threats sparked by the liberalisation attempt of 1965 and the ensuing current account crisis by introducing far-reaching changes in the exchange rate and trade regimes. It took various steps to deal with the more prolonged difficulties of 1976-86. At different times the economy faced severe adjustment pressures that gave rise to a number of " crisis episodes " the sharpest being the current account of 1982-84. In the context of the 1981-85 recession, the servicing of Colombia's mounting foreign debt has become an increasingly serious problem for the country and has forced major cut-backs on government investment in social and economic development.

The growth of the illegal drug industry in Colombia over the past two decades has had serious economic, political, and social effects. Colombia has **became** the world's major cocaine processing and distribution center, **accounting** by some estimates for about 75 percent of the world's supply of cocaine. The economic impact of the illegal drug industry in Colombia cannot be neglected. It is estimated that it produces an amount equivalent to 7 percent of GDP[27]. However, the costs of society have already out weighted any possible **benefits** the highly organised criminal groups that dominate the industry have accumulated enormous wealth and gained access to political and business spheres, enhancing their influence and having a detrimental effect on the social fabric.

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TABLE-5.1

Performance of the 1st to 5th Five Year Development Plans (Korea)

Item	Average increase rate	First Plan		Second Plan		Third Plan		Fourth Plan	
		Plan	Performance	Plan	Performance	Plan	Performance	Plan	Performance
GNP Growth rate	%	7.1	7.8	7	9.6	8.6	9.7	9.2	5.8
Industrial Structure	Current Price	100	100	100	100	100	100	100	100
Agriculture, Forest & Fishery	%	34.8	34.8	34	26.8	224	23.5	18.5	15.8
Mining & Manufacture	%	26.1	20.1	26.8	22.2	**27.9**	28.4	40.9	30.7
Commodity Exports	100 million	1.4	2.5	6	11	35	78	202	207
Commodity Imports	100 million	4.9	68	9	22	28	84	189	243
Gross Investment rate to GNP	Current Price %	**22.7**	21.6	19.9	25.1	24.9	25.6	26	30.3
Domestic Savings rate		13	**11.8**	14.4	14.6	21.5	23.9	23.9	20.5
Employment Population increase rate price %	Currrent	4.7	3.8	**3.3**	3.6	2.8	4.5	32	2.3
Unemployment population rate	%	14.8	7.1	5	4.5	4	39	38	45

Source • C Sharmaft Calchoong Kim Korea· India Tryst Ed 1983 Khanna Publications, New Delhi, p.132

Aggregate Net Resource flows and Net Transfers (Long-term)

(US $ million)

Aggregates	1970	1980	1987	1988	1989	1990	1991	1992	1993
Net Resource flows	411	2440	-8647	-2200	-1284	1368	5140	7538	8602
Net Transfers	330	740	**-11188**	-4431	-3445	-568	3138	5308	6234
Total Debt outstanding (long-term)	19991	18236	29992	25936	22999	24187	28534	32237	35003
Interest on long-term debt	76	1637	2407	2052	1938	1688	1707	1984	2115
Foreign Direct Investment	66	6	601	671	758	788	1180	727	588
Profit remittances on FDI	5	24	134	179	222	266	296	247	253
GNP	9080	61534	133395	179599	220330	251867	292136	305776	328729
Exports of Goods & Services	1379	22577	56255	70900	74051	77392	85112	91179	99203
Imports of Goods & Services	2180	28347	47613	58187	69243	79839	93685	95940	99310
Current Account Balance	-623	-5321	9854	14161	5056	-2172	-8726	-4529	384

Source : Composed from various issues of World Debt Tables and
Global Development Finance Vol.2 Country Tables 1997. World Bank Publications.

Table 5. 3

Uses of Foreign Borrowings, 1970-85.

(billion dollars)

Years	Increase of total Foreign Debt	Increase of Foreign Assets	Current Account Deficit	Discrepancy *
1970-79	18.60	5.80	11.60	1.20
1980	6.90	1.20	5.30	0.10
1981	5.30	0.50	4.60	0.10
1982	4.60	0.80	2.60	1.20
1983	3.30	0.70	1.60	1.00
1984	2.70	0.60	1.40	070
1985	3.70	1.10	0.90	1.70
1980-85	26.50	4.90	16.40	5.20

* consists mostly of errors and omissions.

Source : Structural Adjustment in a Newly Industrialised country . The Korean experience. Ed. Vittorio Corbo Sang-Mok Suh. (a World Bank book) 1992, p.74.

Table 5.4

Composition of Savings, 1978-85

(Percentage of GNP at Current Prices)

YEAR	National Savings	Household Savings	Business Savings	Government Savings
1978	28 50	12.40	9.60	6.30
1979	28.10	11.70	9.50	**6.90**
1980	20.80	6.60	**8.80**	5.40
1981	20.50	6 70	8.20	5.60
1982	20.90	6.80	8.00	**6.10**
1983	**25.30**	7.60	10.40	7.20
1984	**27.90**	9.90	11.00	7.10
1985	**28.60**	10.60	11.10	6.90

Note: The data for 1980-85 are not comparable with earlier data.

Source : Structural Adjustment in a Newly Industrialised country . The Korean experience. Ed. Vittorio Corbo Sang-Mok Suh. (a World Bank book) 1992, p.75.

TABLE- 5.5

Investment and External Balance, 1978-85.

Item	1978	1979	1980	1981	1982	1983	1984	1985
Overall Investment	31.20	35.60	32 10	30.30	28.60	29.80	31.90	31.20
Fixed Investment	30.80	32 80	32.20	28.70	30.50	31.30	31.30	30.70
Manufacturing	6.60	6.90	720	6.10	6.30	5.70	6.80	8.00
Inventory Investment	0.40	2.90	-0.10	1.60	-1.90	-1.50	0.60	0.30
Imported Raw Material Finished & Semi Finished Goods	1.40	1.10	1.10	-0.10	-0.70	-0.80	0.00	N.A
External Balance	-2.10	-6 70	-8.60	-6.80	-380	-2.10	-1.60	-1.10

N.A : Not available *** Current Account deficit as a percentage of GNP.**

Note: Date for 1980-84 are not comparable with earlier data.

Source : Structural Adjustment in a Newly Industrialised country . The Korean experience. Ed. Vittorio Corbo Sang-Mok Suh. (a World Bank book) 1992, p.76.

TABLE 5.6

Inflows of Foreign Capital , South Korea (1959 - 80).

(US $ billion)

Type of Inflow	**1959-76**	**1977**	**1978**	**1979**	**1980**
Loan of which	7.89 [043]	1.87	2.75	2.71	293
Public	3.32 [0.18]	0.63	0.82	1.12	1.52
Commercial	457 [0.25]	1.24	1.93	1.59	**1.41**
Direct Investment	0.67 **[0.04]**	0.10	0.10	0.13	0.38

Source : Economic restructuring in East Asia and India Perspective as Policy reform 1996, Macmillan India Limited, p.29.

Table 5.7

Indo - Korean Trade

(Rs. in Crores)

Year	Exports	Imports	Trade Balance
1980-81	44	135	-91
1984-85	90	167	-77
1985-86	99	271	-172
1986-87	106	346	-240
1987-88	141	329	-188
1988-89	183	432	-249
1989-90	198	557	-359

Source : R. C. Sharma and Dalchoong Kim " Korea and India Tryst with change and development Ed. 1993, Khanna Publishers, New Delhi p.200 and p.202

Table 5.8

India's Exports to Korea

Item	1987-88	1988-89	1989-90
Coffee	1.31	neg	0.36
Tobacco	0.06	0.04	0.49
Spices	neg	neg	0.31
Oil Meals	neg	0.33	0.23
Cashewnut Shell Liquid	neg	12.32	9.82
Cotton			1.35
Iron Ore	1.83	0.17	4.89
Processed Minerals	56.76	74.31	102.28
Mica	neg	neg	3.69
Other Ores	0.26	0.27	0.46
Leather Manufactures	neg	neg	10.83
Gems & Jewellary	10.03	8.26	13.06
Basic Chemicals		0.19	0.37
Other Chemicals		18.47	32.74
Plastic & Linoleum Products		0.46	2.13
Engineering Goods			3.56
Cotton Yarn, fabrics			30.42
Silk yarn, fabrics & Made'ups	1.63	1.58	1.72
Handicrafts (including	2.07	1.15	0.51
handmade Carpets)	0.18	0.78	0.6
Total (including others)	145.7	182.76	197.88

Source: R **C Sharma** & **Dalchang Kim, p.201.**

Commodity Composition of Exports from India to South Korea

Rs. in crores					Commodities	Share in total exports (%)				CARG (%)
			April-January					April-January		1990-91 &
1990-91	1993-94	1994-95	1994-95	1995-96		1990-91	1994-95	1994-95	1995-96	1994-95
22.30	69.00	234.90	208.90	237.20	Cotton yarn fabrics madeups etc	6.82	23.60	26.35	20.77	80.00
116.80	87.10	130.60	90.20	134.10	Iron ore	35.66	13.12	11.37	11.74	2.83
	112.80	116.40	89.60	190.50	Oil meals		11.70	11.30	16.69	
12.10	71.60	91.10	78.60	96.10	Dye & intermediates	3.69	9.15	9.91	8.42	65.69
0.00	33.30	39.90	13.50	32.20	Prim. & semifinished iron & steel	0.00	4.01	1.70	2.82	1199.14
	9.40	32.00	30.20	16.50	Leather		3.22	3.80	1.45	
16.50	27.20	27.40	24.60	40.90	Inorganic/organic/agrochemicals	5.05	2.75	3.11	3.58	13.48
1.00	11.10	27.30	23.70	38.40	Manmade yarn fabrics madeups	0.30	2.74	3.00	3.37	129.62
6.50	15.10	26.40	18.90	43.00	Drugs & Pharmaceuticals	1.99	2.65	2.38	3.76	41.74
7.60	13.40	25.00	16.10	16.10	Ferro alloys	2.33	2.51	2.03	1.41	34.60
	31.00	22.30	16.60	7.60	Aluminium other than products		2.24	2.10	0.66	
0.40	3.20	16.70	15.40	7.20	Marine Products	0.13	1.68	1.94	0.63	150 80
	9.70	15.40	14.80	28.30	Machinery & instruments		1.55	1.87	2.48	
1.40	5.70	14.40	8.70	32.40	Plastic & linoleum products	0.42	1.44	1.09	2.83	79.76
—	5.00	12.40	7.90	15.10	Manufactures of metals	—	1.25	1.00	1.32	—
0.80	3.70	8.70	6.80	15.20	RMG cotton incl. accessories	0.25	0.88	0.85	1.33	81.06
2.90	13.20	8.20	5.90	11.20	Processed minerals	0.89	0.82	0.74	0.98	29.42
0.30	3.70	8.10	6.20	2.40	Paper/wood products	0.10	0.82	0.78	0.21	122.60
1.70	3.30	7.70	5.10	5.30	Paints/enamels/varnishes	0.52	0.77	0.64	0.47	45.48
14.20	2.30	6.60	6.30	5.70	Leather manufacturers	4.34	0.66	0.79	0.50	-17.57
	2.20	6.50	5.60	6.60	Footwear of leather		0.65	0.71	0.57	
0.00	0.80	4.40	2.80	1.50	Wollen yarn, fabrics, madeups etc.	0.00	0.45	0.36	0.13	433.13
2.10	2.20	4.20	0.60	2.90	Gems & jewellery	0.64	0.42	0.08	0.25	18.76
1.80	2.80	3.50	3.20	4.40	Silk yarn, fabrics, madeups etc.	0.54	0.35	0.41	0.38	18.67
—	1.30	3.40	1.70	2.60	Rubber manufactured products	—	0.35	0.21	0.22	—
208.50	540.30	893.50	701.90	993 30	Total of the above	6368	89.76	88.53	86.98	43.88
118.90	107.20	101.90	91.00	148 60	Others	36.32	10.24	11.47	13.02	-3.78
327.40	647.50	995.50	79290	1141 90	Tot* exports	100.00	100.00	100.00	100.00	32.05

Source : Foreign Trade Statistics of India, May 1994 CMIE p 304

Table 5.9

India's Imports from Korea

Item	1988-89	1989 - 90
Synthetic and Reclaimed Rubber	0.78	4.48
Raw Silk	2.09	2.46
Synthetic Fibers	7.79	18.78
Organic Chemicals	11.81	41.8
Inorganic Chemicals	3.07	4.37
Pharmaceutical Products	1.68	2.86
Artificial resin, Plastic Materials etc.	73.74	90.91
Textile yarn, fabrics etc.	4039	59.84
Non-metallic Minerals	20.19	11.26
Iron & Steel	57.98	48.37
Non-Ferrous Metals	24.35	13.15
Machine Tools	7.51	7.05
Electrical Machinery	100.28	95.41
Transport Equipment	5.36	4.97
Total (including other)	**432.11**	**5S7.24**

Source : R C Sharma & Dalchoong Kim, Korea and India tryst with change & development Ed. 1993 Khanna Publishers, New Delhi, p.200&p.202.

Commodity Composition of Imports from South Korea to India

Rs. in crores					Commodities	Share in total exports (%)				CARG (%)
			April-January					April-January		1990-91 &
1990-91	1993-94	1994-95	1994-95	1995-96		1990-91	1994-95	1994-95	1995-96	1994-95
96.91	330.86	404.15	344.63	351.67	Artificial resins plastic materials	14.94	21.00	22.19	16.18	42.90
79.27	140.7	202.56	172.13	145.14	Textile yarn fab, madeup articles	12.22	10.53	11.08	6.68	26.43
37.07	103.73	190.97	154.44	280.12	Organic chemicals	5.71	9.92	9.94	12.89	50.66
42.35	70.9	189.42	126.48	233.25	New-electrical machinery	6.53	9.84	8.14	10.73	45.43
92.16	131.46	168.06	142.95	130.81	Iron & Steel	14.21	8.73	9.20	6.02	16.21
15.37	50.17	133.55	110.98	76.42	Synthetic & regenerated fibers	2.37	6.94	7.15	3.52	71.70
30.56	63.76	108.61	88.74	126.95	Non-ferrous metals	4.71	5.64	5.71	5.84	37.30
	56.33	103.12	77.72	158.05	Electronic goods	0.66	5.36	5.00	7.27	
4.3	556.76	99.73	55.02	217.16	Project goods	0.46	5.18	3.54	9.99	119.41
—		56.63	56.63	—	Sugar	—	2.94	3.65		—
3.01	34.34	32.46	28.49	37.49	Medicinal & pharma products	046	1.69	1.83	1.73	81.26
10.96	31.3	27.17	19.84	27.63	Manufactures of metals	1.69	1.41	1.28	1.27	25.49
6.24	25.73	20.09	16.54	18.69	norganic Chemicals	0.96	1.04	1.06	0.86	33 92
10.54	14.88	19.87	13.6	9.34	NMM manufactures excl. pearls	1.62	1.03	0.88	0.43	17.18
9.83	21.52	18.94	15.98	24.15	Synthetic & reclaimed rubber	1.52	0.98	1.03	1.11	17.81
41.63	11.53	14.45	15.67	29.55	Electrical machinery	6.42	0.75	1.01	1.36	-23.24
7.44	18.79	13.19	15.71	7.36	Metalifers ores & metal scrap	1.15	0.69	1.01	0.34	15.40
3.58	14.12	11.71	7.75	6.62	Raw silk	0.55	0.61	0.50	0.30	34.51
2.18	1.7	10.64	8.63	14.44	Dyeing & colouring materials	0.34	0.55	0.56	0.66	48.61
5.73	8.24	10.61	3.42	18.11	Machine tools	0.88	0.55	0.22	0.83	15.61
1.77	8.05	9.55	10.91	6.36	Chemical material & products	0.27	0.50	0.70	0.29	52.35
	2.88	7.82	7.42	5.79	Leather		0.41	0.48	0.27	
1.4	7.91	6.27	5.15	102.88	Transport equipment	0.22	0.33	0.33	4.73	45.40
3.94	4.22	3.94	3.03	9.12	Professional inst. optical goods	0.61	0.20	0.20	0.42	-0.01
0.76	1.75	1.81	1.6	2.78	Paper board & manufacturers	0.12	0.09	0.10	0.13	24.24
507.02	1711.63	1865.32	1503.45	2039.87	Total of the above	78.16	96.93	96.80	93.87	38.49
141.69	58.48	59.03	49.63	133.17	Others	21.84	3.07	3.20	6.13	-19.66
64871	1770.11	1924.35	1553.04	2173.04	Total imports	100.00	100.00	100.00	100.00	31.24

Source Foreign Trade Statistics of India, May 1996, CMIE p.304

NMM* : Non-metallic minerals

Table 5.10

Korea Trade with India

(Rs. in million $)

Year	Total Trade	Export	Import
1981	310	225	85
1982	499	350	149
1983	858	577	301
1984	1429	1049	380
1985	683	467	216
1986	639	512	127
1987	606	404	202
1988	635	465	170
1989	932	675	258
1990	718	435	283

Source : R C Sharma & Dalchoong Kim, Korea and India tryst with change & development Ed. 1993 Khanna Publishers, New Delhi, p.240.

TABLE-5.11

NET CAPITAL MOVEMENTS

(MILLIONS OF DOLLARS PER YEAR)

1950-65	1966-73	1974-76	1977-81	1981	1982	1983-89	1990	1991	1992	1993	1994 P
34	289	338	956	1941	2182	879	53	-527	167	2213	3075

NET CAPITAL MOVEMENTS AS A SHARE OF GDP

1950-65	1966-73	1974-76	1977-81	1981	1982	1983-89	1990-91	1992-93
0.8	4	2.4	34	5.4	5.4	2.3	0.1	2.4

NET INFLOW OF FOREIGN DIRECT INVESTMENT

MILLIONS OF DOLLARS

1950-65	1966-73	1974-76	1977-81	1981	1982	1983-89	1990	1991	1992	1993
			144	265	366	571	500	457	790	

Source : Policies to improve **linkages with** the **Global Economy** Latin America and Caribbean UN P 194,195 1996.

TABLE--5.12

External Debt and Resources Flows

(US million dollars)

Items	1975	1985	1994	1995
Total debt outstading and disbursed	3757	14245	19416	19784
IBRD	633	2399	2629	2548
IDA	23	18	12	22
Total debt service	314	1980	3686	3431
IBRD	78	318	1054	604
IDA	1	1	1	1
Composition of net resource flows :				
Official grants	18	20	45	50
Official creditors	111	938	-387	22157
Private creditors	216	**392**	590	-97
Foreign direct investment	37	1023	950	1200
Portfolio equity	0	0	320	131
World bank programme :				
Commitments	88	489	159	207
Disbursements	106	590	310	238
Principal repayments	34	165	837	415
Net flows	71	**424**	-527	-177
Interest payments	45	153	218	190
Net transfers	27	271	-745	-367

Source : Trends in Developing Economies 1996.

TABLE-5.13
Colombia : The Key Macro Economic Aggregates.

Year	Net transfer of resources	Contribution of Net external financing to GDI	Total Disbursed external debt	Interest paid on outstanding debt	Nel Direct Investment	GDCF at constant 1980 prices	GDS(mil of S) at 1980 pnces	Value of Export: of goods 1980 prices	Value of imports of goods 1980 pnces	Net transfer of resources as % of exports of goods & services	GOP at constant Market prices (1960 *IMS)*	Percapita GOP at constant pnces 1980	Total population (1000 of persons at Mid year)
1970	105	24 7		105	37	3293	3365 2	2784 5	2411 6	NA	19149.2	896 5	280094
1980	628	33	6805	628	48	54482	6067 3	3986	4283	NA	32479	'224 5	355148
1982	1147	383	10269	1147	330	5961 1	5283.5	3384 8	5060 1	NA	33556 5	12V 5	370726
1985	1293	28 2	14063	1293	1015	5787 7	55562	4239 3	3834	NA	36821 2	'249	394271
1986	-847	-63	15950	1350	672	6229 9	7763 5	5111 2	3916 1	-13 2	39364.6	13098	403572
1987	1399	-4 8	17047	1399	341	6280 8	8289 2	6731 3	4153 6	-28	415807	1358	411732
1988	1397	25	17960	1397	159	6963 6	80933	51975	4700 5	-199	43327.8	13896	426077
1989	1670	24	17604	1587	726	6598 9	8081 4	5872 4	4489 5	-22 9	448569	14'33	434105
1990	-2216	-68	17848	1645	480	6378 3	8466.3	71795	4755 5	-25 6	46639	1443 9	442183
1991	-2527	-34 5	17312	1491	514	5984.5	8843 6	7931 5	4521 9	-27 9	474849	1445	450307
1992	-1772	-9 8	16862	1334	800	67276	101544	8564 5	5930 3	-19 2	49269 8	1474	458452
1993	521 3	16 4	18370	11879	1091 8	91372	10290 5	9163 1	904C 5	53	51589 7	15179	466598
1994	1276.4	19 5	21280	1558 4	1698	104164	11529	9037 7	10532 7	108	54479.2	'577	474721

Note: Minus sign indicate an outward transfer of resources

Source : Trends ın Developing Economy 1996

TABLE-5.14

COLOMBIA - MAJOR INDICATORS

[Percentage of GDP based as figures in 1980 dollars]

Items	1981	1976-81	1980-82	1989	1983-90	1991	1992	1993
Net inflow of capital	2.5	5.1	6.5	3.6	2	2.1	3.3	5.4
GDP growth rate	5.7	3.3	1	4.2	4	1.8	3.6	4.9
Percapita GDP[1980dollars]	1138	1225	1213	1326	1444	1445	1472	1518
Investment	18.3	20.1	22	17.3	14.9	13.3	17.9	21.7
Domestic savings	19.4	18.2	17	19.1	21.6	22 2	25.5	25.1
Exports of goods	11.9	11.5	10.1	12.6	15.9	17.2	17.9	18.3
Imports of goods	11	13.4	15.1	10.9	10.2	8 7	11	16

Source : Various Issues of Statistical Year Book for Latin America and the Caribbean UN 1995

TABLE---5.15

COLOMBIA.TOTAL INTEREST AS A PERCENTAGE OF GOODS AND SERVICES

[Percentages]

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994P
In percent	20.5	20.5	20.7	21.7	19	16.4	14.5	12	13.1

TOTAL DISBURSED EXTERNAL DEBT AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES

[Percentages]

In percent	248	257	267	241	206	191	183	186	179

TOTAL EXTERNAL DEBT AS A PERCENTAGE OF GDP.

In percent	47	44	43	43	42	41	32	32	31

Source : Economic Survey of Latin America and Caribbean 1994-95. UN.

TABLE- 5.16

Colombia at a Glance
Structure of the Economy

% ofGDP	1975	1985	1994	1995
Agriculture	23.9	17	17.9	18.6
Industry	29.2	34.6	29.7	28.4
Manufacturing	23.2	21.7	19.6	18.7
Services	46.9	48.4	52.4	53
Average Annual growth				
Agriculture	3.1	3.9	1	11.1
Industry	3.1	3.9	2.8	5.9
Manufacturing	2.5	3.8	1.6	1
Services	4.7	4.1	9.1	2.3
Trade (US $ million)				
Total Exports (fob)			8754	10397
Total Imports (CIF)			11040	12922
Balance of Payments (US $ million				
Exports of goods and non-factor services	2105	4642	11966	13775
Import of goods and non-factor services	2007	4989	14170	16365
Resource balance	98	-347	-2204	-2591
Net factor Income	-318	-1710	-1707	-2350
Net current account tran	0	455	862	694
Current account balance before official transfers	-220	-1602	-3048	-4247
Financing items (net)	282	1867	3181	4569
Changes in net reserves	-62	-265	-133	-322

Source: Trends in developing economies 1996

TABLE-5.17

COLOMBIA AT A GLANCE

Key economic ratios and long term trends

Item	1975	1985	1994	1995
GDP[billions US $]	13.1	34.9	67.3	793
Gross domestic investment/GDP	17	19	22.4	226
Exports of goods and non-factor services/GDP	15.8	13.8	15.7	16.7
Gross domestic savings/GDP	18.8	20.3	18.1	19.1
Gross national savings/GDP	16.4	16.9	15.5	16.1
Current account balance/GDP	-1.7	-4.6	-4.5	-5.4
Interest payments/GDP	1	2.5	1.5	1.4
Total debt	28.7	40.8	28.8	24.9
Total debt service/exports	14.3	40	29.2	23.7
Present value of debt/GDP			27	—
Present value of debt/exports	—	—	143.9	—
[Average Annual Growth]	1975-84	1985-95	1994	1995
GDP	3.9	4.2	5.5	5.2
GNP per capita	1.6	2.5	5.2	2.8
Exports of goods and non-factor services	2.6	8.3	6.6	82

Source: Trends in developing economies 1996.

TABLE-5 18

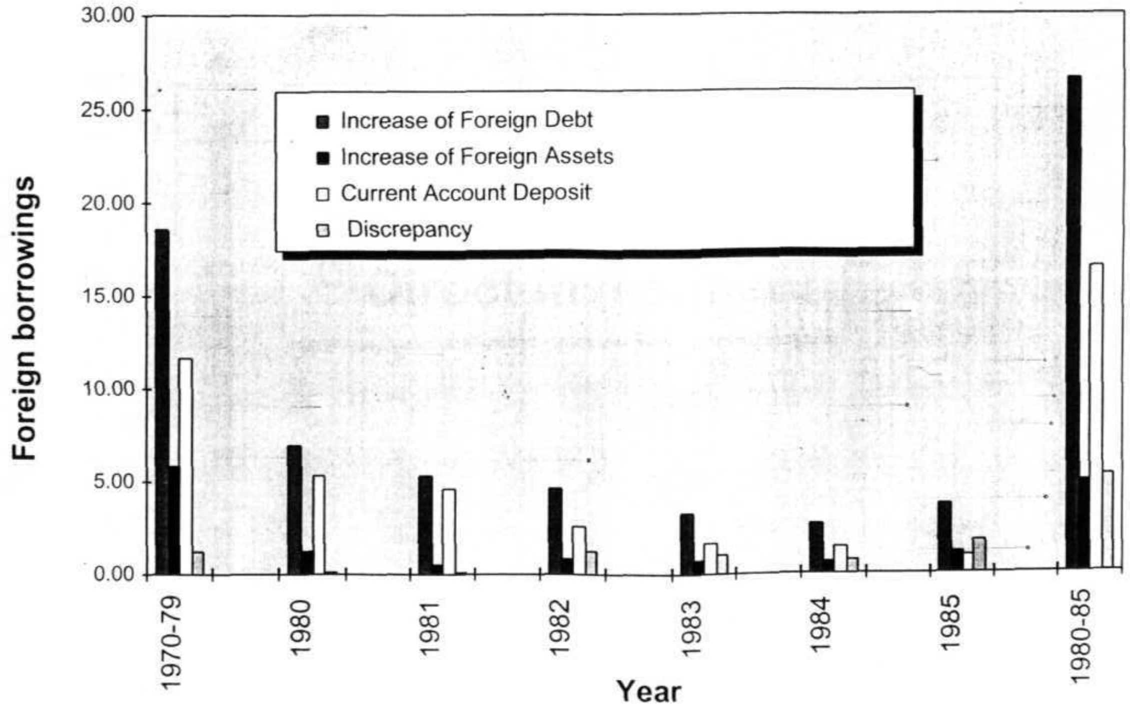
Trade and current account deficit!-] /surplus[+] and net international reserves 1950-91 (US millions dollars)

Year	Trade balance	Current Account Balance	Net international Reserves	Change in net International Reserves
1950	59	-14	92	-39
1951	70	5	141	48
1952	89	29	177	37
1953	84	15	187	10
1954	35	-43	189	1
1955	-40	-125	102	-87
1956	55	-12	66	-36
1957	139	80	210	144
1958	155	62	215	5
1959	125	61	264	49
1960	-1	-85	62	-202
1961	-54	-142	-34	-96
1962	-61	-170	-80	-45
1963	-12	-137	-112	-32
1964	61	-131	-122	-10
1965	168	-13	-62	61
1966	-105	-290	-95	-33
1967	94	-89	-36	59
1968	-6	-188	35	72
1969	24	-213	97	61
1970	-20	-291	152	56
1971	-150	-456	170	18
1972	116	-201	345	175
1973	260	-77	516	171
1974	-47	-405	430	-86
1975	297	-127	547	118
1976	560	189	1166	619
1977	705	390	1836	664
1978	667	330	2482	657
1979	537	512	4106	1624
1980	13	104	5416	1310
1981	-1333	-1722	5630	214
1982	-2076	-2885	4891	-739
1983	-1317	-2826	3079	-1812
1984	-404	-2088	1796	-1283
1985	-23	-1809	2081	285
1986	1922	383	3435	1354
1987	1868	336	3329	-106
1988	827	-216	3713	384
1989	1474	-201	3933	220
1990	1972	700	4600	667
1991	3037	2551	6506	1906

SOURCE: Courting Turmoil and deferring prosperity Colombia between 1960-90.. by Jorge Garcia Garcia &Sisira Jayasuriya. World bank comparative macro economic studies p.142-43,1997.Washington

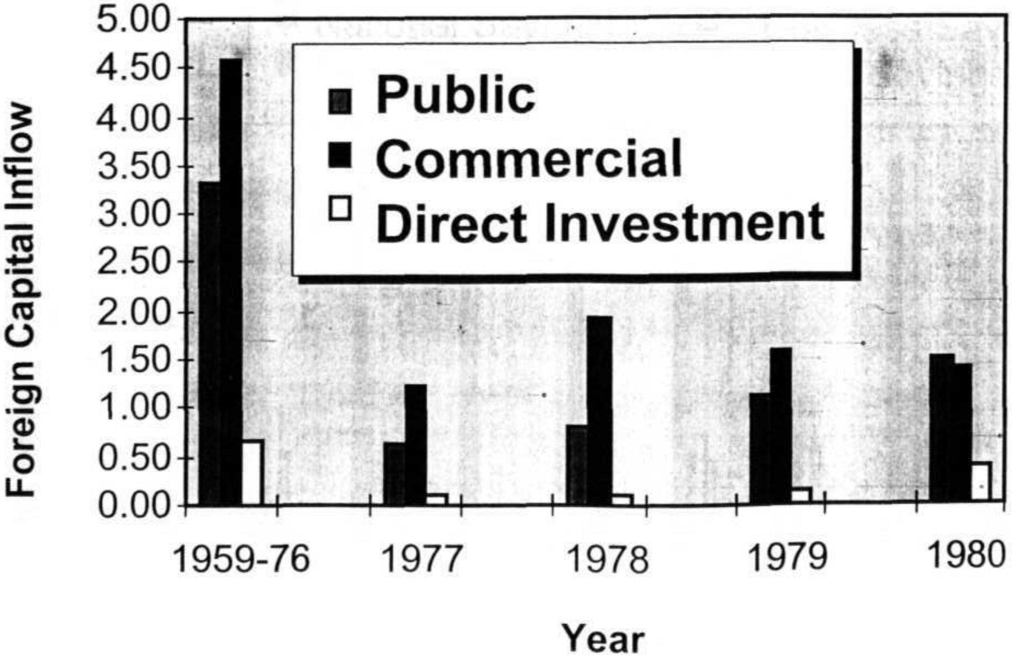
Graph - 5.1

Korea - Foreign borrowings 1970-85

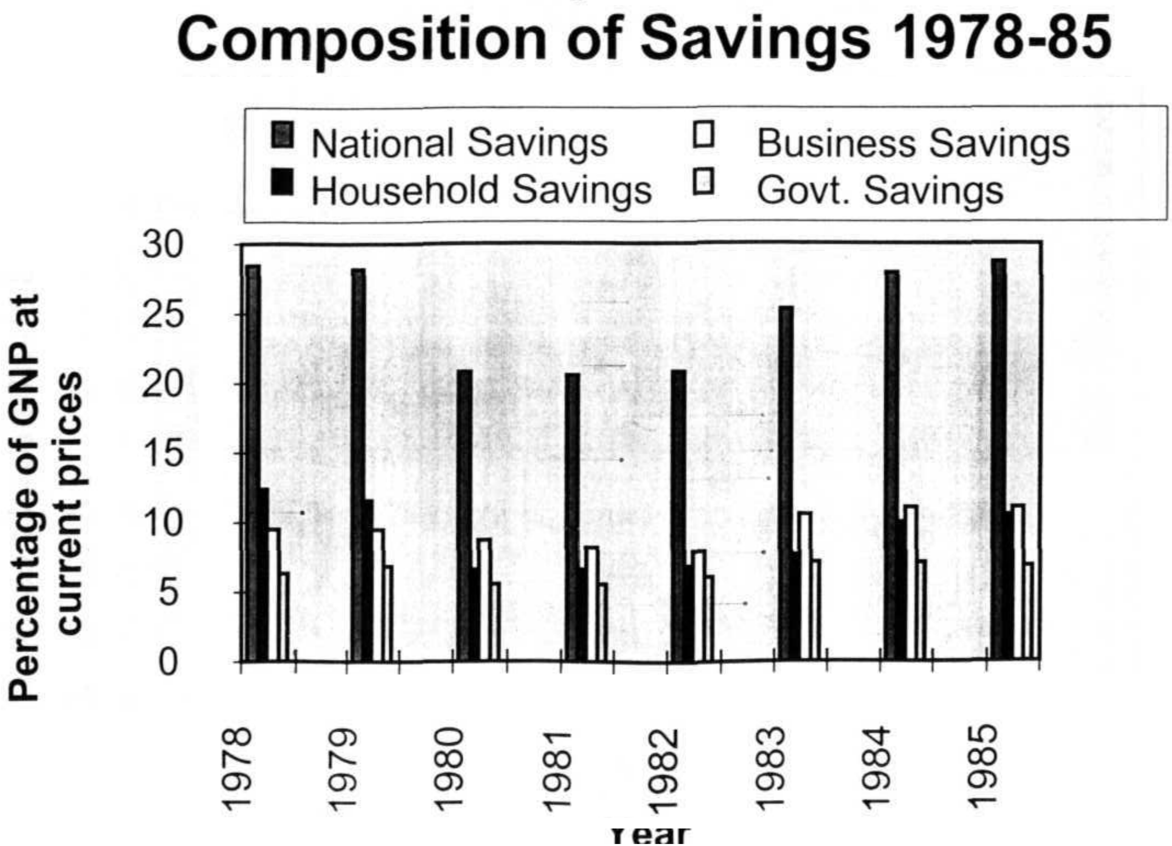


Graph - 5.2

South Korea Inflows of Foreign Capital



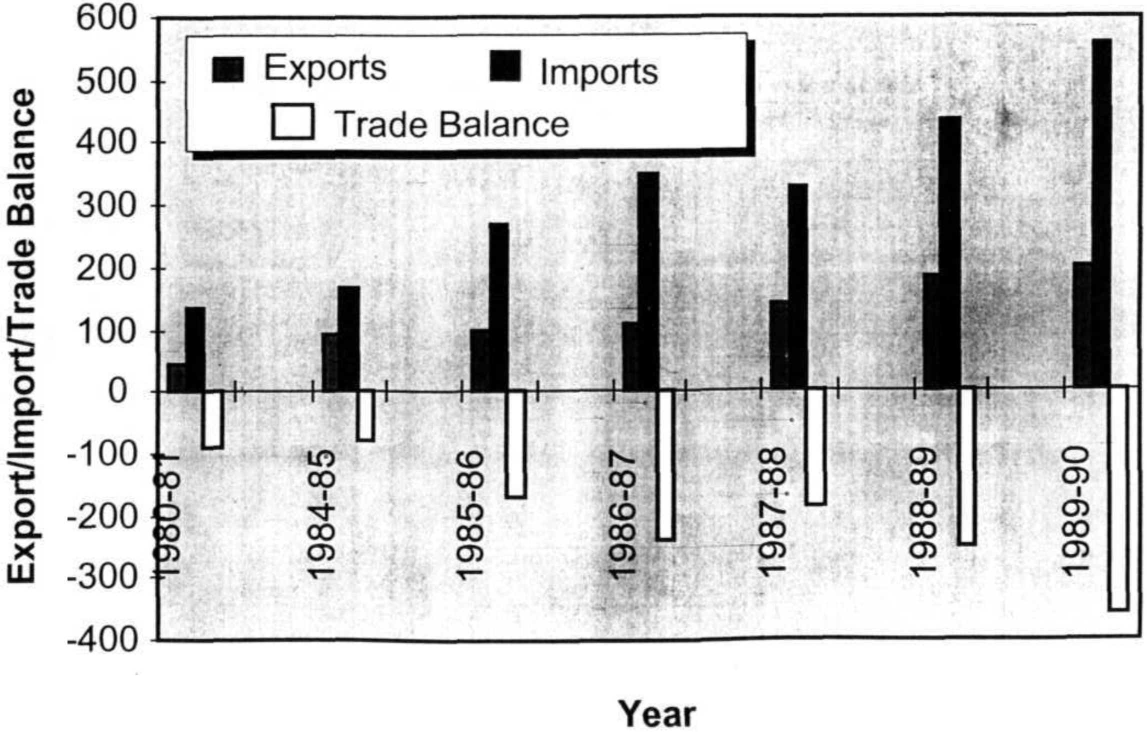
Graph - 5.3



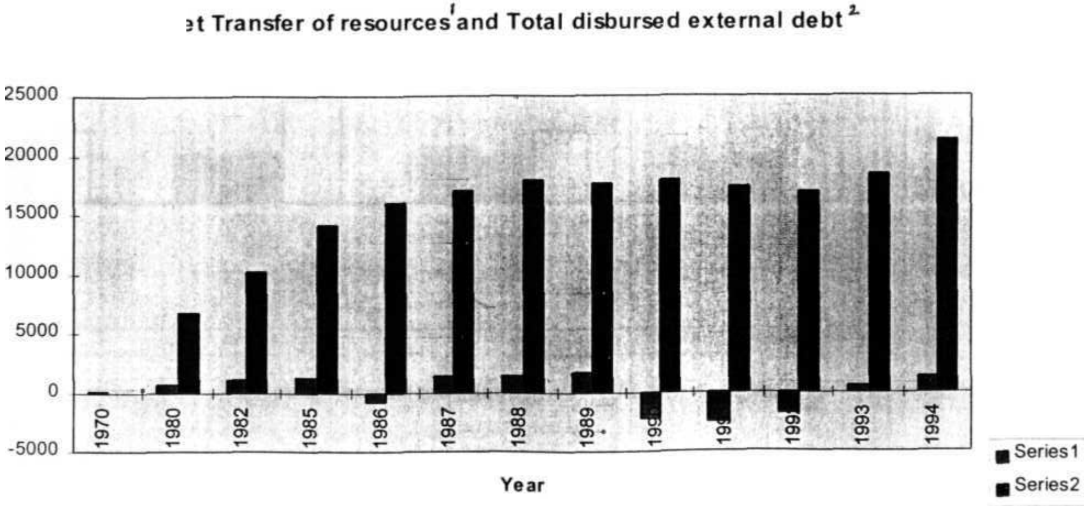
Composition of Savings 1978-85
National Savings
Household Savings
Business Savings
Govt. Savings
Percentage of GNP at current prices
30
25
20
15
10
5
0
1978
1979
1980
1981
1982
1983
1984
1985
Year

Graph - 5.4

Indo-Korean Trade

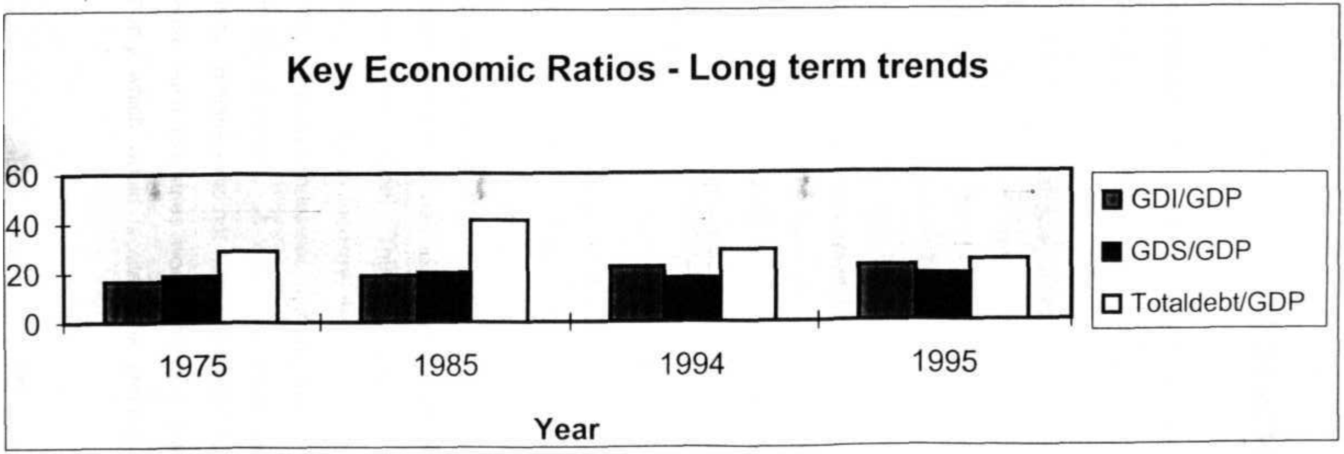


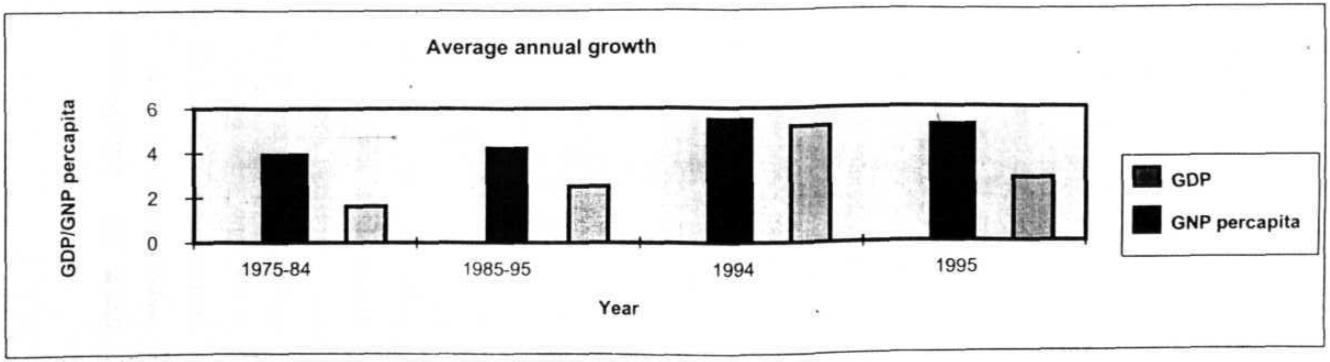
Graph - 5.5



et Transfer of resources[1] and Total disbursed external debt[2]
25000
20000
15000
10000
5000
0
-5000
1970
1980
1982
1985
1986
1987
1988
1989
1993
1994
Year
Series1
Series2

Key Economic Ratios - Long term trends





Chapter VI

Comparative analysis of foreign aid and its role in the economic development of India in comparison with South Korea and Colombia :

India during the British rule, exhibited many of the fundamental characteristics of an underdeveloped economy in a distinct manner. The story of India during British rule is a story of arrested economic development. The British government that ruled the country till 1947 did not take any active steps for the development of our country. India was exploited to serve the economic interests of Great Britain. India was considered to be the source of raw - materials for British industry and market for the British products. The British government transformed our country into a colonial economy. Britain had exploited India over a period of two centuries. In this period there was massive drain of wealth from India to England[1].

The British rulers neglected the development of agriculture and the industrial sector. Throughout the British period, Indian agriculture was starved of capital. The productivity of agriculture was very low. The relative income in the agricultural sector was far less than that in non-agricultural sectors. The total produce of the land was too small to provide a decent living to the entire agricultural population. Thus agriculture in British India was a 'depressed industry '. Turning to Industry, we find only consumer goods industries in the country. The basic industries such as steel and the machine making industries were almost absent. A very small percentage of people were engaged in industry. Britishers did not want to establish heavy and basic industries in India because such industries would create a solid capital base for the Indian economy which would facilitate the process of industrialisation and would accelerate the tempo of Indian economic development. The Indian businessmen were not keen on exploring the possibilities of industrial development because adequate facilities were not given by the British government for undertaking such investments. Thus the industrial structure of British India was very poor[2].

In India the inflow of foreign aid peaked during the early 1960s. Gross domestic savings rose from around 13 percent of GDP in the early 1960s to around 21 percent in the late 1980s. The ratio of gross aid utilisations to domestic investment has steadily fallen from 11 percent in 1975-76 to only 3.7 percent in 1985-86, India's ability to use aid effectively is much better than that of many countries and has improved considerably over the years. In India both food and financial aid, though modest in relation to the whole economy, have at critical times eased savings and foreign exchange constraints and permitted faster growth than would otherwise have been possible. In addition, aid's contribution to India's agricultural production, particularly through Green Revolution, has itself had major macro economic effects[4].

India enjoyed good relationship aid donors up to the mid 1960s. Donors accepted India's formal planning framework and selected from among the projects it yielded, they made few noticeable attempts at intervention in the conduct of economic policy, when war drought and agricultural problems placed India's balance of payment under pressure from about 1965 onwards, donor attitudes quickly changed. Since then the Indian story of policy dialogue consists of three transitions from explicit use of a single donor (the US) to the conduct of dialogue with the multiple donor consortium ,and from macro - conditionality to a sectoral frame work for dialogue. The devaluation forced on India in 1966 was much needed, but ill-timed. It was forced as a condition of the resumption of US aid, against the wishes of the Indian Finance Minister, and it was the subject of major pressures and tensions between the donors and the government of India. The consortiums aid package, designed to support both devaluation and further trade liberalisation measures, collapsed after one year when the US pulled out. Such a degree of leverage over macro economic policy was only achieved in conditions of acute economic difficulty for India, and at a cost of chronic disruption to both aid relationships and Indian economic management. In the medium-term the Indian response was to seek to diversify her sources of political and economic support; the donors who sought to promote internal changes by strong leverage in fact failed to secure the changes and in the process, lost the capacity to influence future Indian policy[5].

The successful re-establishment of policy dialogue has depended greatly on India's own skills. At both sectoral and project levels, India fields a large range of capable people with accumulated skills and experience. The learning process is decidedly two-way. Moreover, Indian officials are prominent at many levels of the World Bank, so that Bank coordinated dialogue seems far removed from bilateral leverage with its diplomatic and political overtones of an outside imposition. India's planning and budgeting systems are sophisticated, and tempered by long experience the country has clear and Project - specific priorities. Research results and capabilities are available from outside the Indian Government. These circumstances are absent for the vast majority of low-income countries[6].

The influence of donors on Indian policy through dialogue diminished in the 1980s. This was an inevitable result both of the reductions in IDA contributions to India and pressures to shift India from IDA to IBRD loans, and the relative strength, in macro - economic terms, of the Indian economy during much of the Period. However, by 1991, the later 1980s relaxation of prudence both with regard to international borrowing and domestic monetary expansion had helped to generate something of a crisis in the economy, with the result that the Finance Minister brought in by the elections of that year was able to introduce a range of liberalising and corrective measures. It is perhaps ironic that a political and economic crisis induced the dismantling of the control regime - charges which decades of patient advice by the donors had been unable to achieve against a background of resistance by vested interests[7].

The economic growth has brought about a structural change in the economy. This is evident in the form of activities and a gradual transformation of a feudal and colonial economy into a modern industrial economy. It is interesting to look at the growth rates of GDP, investment and ICOR during different planning period as they will give an overview of the India growth experience see table 6.1. During the first five year plan period (1951-56) the growth GDP at factor cost is 3.61%. The rate of investment is 10.66. The capital output ratio is 2.95. During the second plan the growth of GDP at factor cost increased and it starts reducing during third plan. During 1966-81 it was unstable. But during 1981 to 92 the GDP growth was stable i.e., 5%. The rate of investment increasing tremendously due to increasing developmental activities of the government starting new industries etc. The ICOR is 5% in 1961-66, 5.8% in 1972-76 and 6.63 in 1976-81.

Table 6.2 explains the sectoral growth in the Indian economy. The agricultural growth in the first plan was 2.9 percent. During second plan it increased to 3.2 percent. But during third plan it became negative i.e. -0.5 percent due to the failure of agricultural production to meet the growing population which gave rise to food imports during this period. The food aid i.e., PL 480 was increased tremendously during this period. The industrial growth was increased all plans except in the Fourth Plan. To meet the damages in the war the government gave much importance to defence rather then for industrial development during fourth plan. During the first plan the growth rate of services sector is 3.7 percent and it increased to 6.1 in eighth plan. By seeing the table we clearly get an idea that the economy is transforming from Agriculture to non-agricultural sectors i.e., industry and service.

Table 6.3 explains the growth rates of GDCF and Gross Savings during planning period. During the first plan the growth of GDCF at constant prices is 9.5 percent the Gross Savings in the same period at current prices is 9.5 percent. The growth of GDCP became negative during 1966-69, 1979-80 and 1991-92 i.e., -3.1 percent, -10.6, -15.8 percent respectively.

The savings during 1979-80 declined very fast i.e., 2.3 percent during seventh plan it is highest 21.1 percent during 1992-93 it is 13.5 percent. If we see the average (1951-93) growth rate of GDCF is 6.2 at constant prices and gross savings is 13.5 percent at current prices. Table 6.4 explains the sectoral distribution of GDP. The data clearly explains the service sector's importance is increasing. The contribution of agriculture and industry is declining, where as services sector's contribution is increase in recent times.

In the post-independence period, India experience uninterrupted growth and development until the early 1960s. But the economic growth process received a set back from 1963 onwards largely because of exogenous shocks and mother nature's periodic unkindren. Chinese aggregarian in 1962, war with Pakistan in 1965, Bangladesh liberation effort in 1971, spectacular oil price hikes engineered by OPEC in 1973 and again in 1979, and alternating floods and droughts, the

Gulf war have been some of the events which were responsible for slowing down of economic growth and development process.

Table 6.4 explains the sectoral distribution of GDP. During 1950-51 the contribution of Agriculture to GDP is 56.46 percent, industry 15.05 percent and services 28.49 percent. During 1959-60 the agriculture contribution declined to 52.21 percent and services contribution increased to 18.27 percent and 29.35 percent respectively. During 1969-70 onwards there is a drastic decline in the contribution of agriculture to GDP i.e., 45.06 percent. The economy is transforming slowly from Agriculture to non-agricultural sectors such as industry, services.

The services sector is contributing more to GDP in 1992-93 i.e., 40.81 percent. Table 6.2 explains the sectoral growth during the plans. During the First Five Year Plan in India the agriculture's growth is 2.9 percent, Industry's 5.9 percent and services is 3.7 percent. During the third plan the growth in agriculture was -0.5 percent this is due to drought in many parts of the country in the third plan. Since the fifth five year plan the industrial growth rate is rising and it is greater than the agricultural growth rate. The growth rate in the services sector is also greater when compared with that of agriculture. During eighth plan the Agricultural growth was 3.0 percent whereas the industry's is 7.1 percent and services is 6.1 percent.

Economic Development and structural change in South Korea :

Korea was a colony of Japan from 1910 to 1945. Following Japan's defeat and surrender in the second world war, Korea was divided into two parts. The Southern Portion, South Korea was put directly under the control of the American Military Government till 1948. A South Korean government established in 1948 under Syngman Rhee, who remained in power till a student revolt forced him resign and retire in 1960. A military coup in 1961 led by. a Major General of the South Korean army, Park Chung Hee, overthrew the government which succeeded Rhee. Part became the President and ruled South Korea as a dictator till his assassination in 1979[8].

The economic condition of South Korea in the 1950s was dismal. In fact when Park took over, the economy was passing through a severe crisis with decreasing growth and fishing unemployment. Park initiated and implemented an economic strategy, which transformed the economy and achieved remarkable economic progress. In the 1950s, South Korea like India was a typical low income. Third World country. Today she is way ahead[9]. -

Since Korea embarked on economic development is earnest in 1962, its economy has grown at one of the fastest paces in the world. As a result, Korea long one of the world's poorest agrarian societies has emerged as an upper middle-income, fast-industrialising country. In around three decades, from 1962 to 1994, Korea's Gross Net Product (GNP) increased from US $ 2.3 billion to US $ 376.9 billion with per capita GNP soaring from US $ 87 to about US $ 8483 at current price levels[10]. She is closer to such high income countries as Portugal (US $ 320) and Ethiopia (US $ 100). As in developed countries, the rapid growth has been accompanied by significant structural changes like the other third world countries, South Korea was basically an agrarian economy around 1960 with about 68.3 percent of the work force depending for their livelihood on agriculture, forestry and fishery and only 1.5 percent on manufacturing. As a result of rapid economic growth, manufacturing became more important than agriculture by the late 1980s with the former accounting for 27.7 percent of the employment and the latter 20.7 percent[11].

South Korean economy during the 1960s and 1970s under Park regime :

Park gave top priority to economic growth which was regarded as chief factor that would legitimatize the military regime. In fact he declared that the key factor of the 16th May Military Revolution was to effect on industrial revolution in Korea. The government under Park introduced several new measures, which in their entirely reflect a particular strategy for economic development. After his death, there have been some changes in the approach of the government. Much of South Korea's dramatic economic changes took place during Park's regime gross investment as a proportion of GNP increased from 12.8 percent in 1962 to 35.7 percent in 1979. Exports increased from 2.4 percent of GNP in 1962 to 31 percent in 1979. GNP at constant prices increased at 9.5 percent per annum during 1962-71 and at 9.6 percent during 1971-79. The share of manufacturing increased from 13.6 percent of GDP in 1960 to 30.6 percent in 1980. By 1980, manufacturing absorbed 21.6 percent of the work force. Park's government did not neglect agriculture. The development of agriculture was actually impressive by international standards. But what transformed South Korea into are of the fastest growing economies of the world was the development of industries[12].

The key to success was the adoption of an outward looking development strategy making exports the engine of growth - a strategy that reflected Korea's insufficient natural endowments, its limited domestic market, and its abundant well-educated, industrious manpower[13].

The exports went up from US $ 55 (24 percent of the GNP) in 1962 to US $ 14705 (31 percent) in 1979. The real (deflated by US wholesale price index) average annual rate of growth of export was as high as 40 percent during the first two five year plans (1962-72) and about 28 percent during 1972-79. The growth was predominantly in manufactured goods with its share in total exports increasing from 27 percentage in 1962 to 90.1 percent in 1979. Export promotion was one of the first things which Park's government did in an organised way[14].

The economic structure was radically transformed as a result of the successful development programs implemented during these years. The manufacturing sector increased it share of GDP from 14.4 percent (1962) to over 27.8 percent in 1992. The commodity trade volume reached more than US $ 477 million in 1962. The gross savings ratio rose to 34.9 percent from 16 percent during the same period.

Korea's development is even more remarkable in view of its situation until the early 1960s. Korea had been economically backward foremost of its long history. There were few significant industries before liberation from Japan's 35-year colonial rule (1910-45), during which Korea's economic resources were ruthlessly exploited by the Japanese. The Korean economy was further devastated during communist provoked Korean war (1950-53), the damage from which took a long time to heal. As late as 1961, Korea was still suffering from the many difficulties commonly faced by less developed nations. On top of its extreme poverty, the population was growing by 3 percent annually. Unemployment prevailed and savings were negligible. The nation had no notable exports, and it depended on imports for both raw materials and important manufactured goods[15].

Given the limited size of the domestic market, economic planners found it necessary to adopt an export oriented industrialisation strategy. This outward development strategy was particularly well suited to Korea's conditions in the early 1960s, Government initiatives played an important part in development efforts. A more realistic single exchange rate was adopted and short-term export financing was made available. Customs procedures were simplified, enabling exporters to easily import necessary raw materials. Foreign investment was also strongly encouraged[16].

The first five year Economic Development Plan (1962-66) focused on laying a foundation for industrialisation and was successful in initiating and accelerating a structural readjustment of industry from subsistence agriculture to modern manufacturing and export trade. The share of primary industries in the overall industrial structure decreased from 34.8 percent in 1966 to 23.5 percent in 1976 and to 7.6 percent in 1992. On the other hand, the share of secondary industry increased from 20.5 percent in 1966 to 27.7 percent in 1992. Tertiary industries held their ground with a total share of 64.7 percent in 1992 compared with 44.7 percent in 1966. In the initial stage of industrialisation , labour intensive light industry, especially textiles, was the growth leader, but more recently, the rapidly developing heavy and chemical industries have came to account for over half of the nation's total manufacturing output. Korea became the 6th largest steel producer in the world with the completion of the third Kwang Yang Blast Furnace in December, 1990[17].

The country is also developing the production of a wide range of industrial machinery and equipment. The electronic industry is another major growth sector, and an increasingly important foreign exchange earner. While the ship-building industry has already passed its peak, car manufacturing is seeing a boon with soaring demands in both the local and overseas markets. Two large petrochemical complexes have developed to meet increasing domestic demand. They are supported by several large refineries located along the three coasts of the country. Other principal industrial products include Cement processed foods, plywood chemical fertilizers, ceramics, glass, non-ferrous metals and farm implements[18].

Overall agricultural production doubled in the 15 years following the launching of the first five year economic development plan in 1962. Growth has since slowed, but the much emphasized goal of self-sufficiency in rice the staple food of Korea has been attained with an output of 5.33 million tons in 1992. Agricultural development efforts have been concentrated mainly on maximizing yields from the country's limited arable land-only 21 percent of total land area in 1992. New high-yield varieties of rice and other crops have been introduced. A large fertilizer and farmers and pesticide industry has been developed to keep farmers adequately supplied with these products. There has been rapid growth in fruits, vegetables and other high-value cash crops, and in livestock products has been increasing rapidly in tune with rising income levels. The expansion and modernisation of Korea's fishing industry has been remarkable over the past two decades, making it an important source of foreign exchange earnings.

Koreans generally attach great importance to education. This was true for many centuries when the state examination was the main venue for recruiting government officials. Success in the examination was the most honorable and surest road to success. In modern Korea, education is still considered to be of prime importance because it produces the manpower needed for economic and technological advancement. It was in the 1880s with opening of Korea to the outside world, that the first modern schools were established many of them by Western Christian missionary. However, the development of modern education system was soon interrupted by Japan's colonial rule (1910-45) and the Korean war (1950-53). The educational system and opportunity have expanded with remarkable speed since then. Today Korea boasts one of the highest literacy rates in the world, and its well educated people are regarded as the primary resource for the impressive national development achieved in recent years[19].

The Ministry of education in the central government organisation responsible for formation and implementation of policies related to academic activities. The budget of the Ministry of education varies from year to year, but generally accounts for some 22.8 percent of the total government outlay, about 3.84 percent of GNP in 1995[20].

Due to rapid economic growth and the improved industrial structure achieved during the past three decades, the problem of unemployment has virtually been over come in Korea. In fact manpower shortage began occurring in some in industrial sectors during a boom period in the late 70s, suggesting that the Korean economy no longer enjoyed an unlimited manpower supply. In 1963, the second year of the first five year economic development plan, the unemployment rate was fairly high 8.2 percent with the number of employed totaling 7.7 million. Rural employment accounted for 63 percent of this total unemployment in urban areas. However the employment picture has since improved steadily, with a substantial number of rural workers having moved into manufacturing and service sectors created by the country's rapid industrialisation. The unemployment rate stood at 2.4 percent in 1994, but it is generally agreed that the economy will no longer benefit from an unlimited work force. The percentage of those employed in mining and manufacture stood at 23.9, and those in service at 62.5 , employment in agriculture, forestry and fisheries plummeted to 13.6 percent, about 35 percent of the level of the early 1960s. To increase employment opportunities, emphasis has been put on the development of skilled labour intensive industries and an increasing scientists and technicians through expansion of vocational and technical education in -house training by industries has also been encouraged.

Liberalisation of Korea's services sector has been difficult due to the relatively underdeveloped state of domestic service industries nevertheless the government has taken a number of unilateral actions toward its eventual full opening. To cite some examples, the life insurance market is now completely open to foreign underwriters. Foreign bank receive treatment commensurate to that of national banks. Investment by foreigners in trading and wholesaling is also open, although restrictions exist in specific are. The advertising market, once open only joint ventures with minority foreign participation is now completely accessible to foreigners[21].

In Korea, as in the US, the European community and Japan, agricultural policy is fraught with far reaching social and political implications which make it difficult sector to liberalise. Domestic agriculture accounts for 7.8 percent of Korea's GNP and nearly 13.1 percent of total employment in 1994 in the stark contrast to the US figures of 2.1 percent and 3.2 percent respectively. Korean sensitivity about agriculture derives apart from the fact that available land per farmer is only 1/223 that of the US though expansion of vocational and technical education. In-house training by industries has also been encouraged[22].

New Challenges and Future Prospects :

The Korean economy, which successfully recovered from a deep recession in the wake of the second oil shock, continued a rapid pace of non-inflationary growth under conditions of stability until 1988. However, from 1989, the Korean economy started to experience difficulties, including slower growth, high inflation in a deterioration in the balance of payments. The GNP growth rate fell to 6.7

percent in 1989 has from the 8.4 percent level of previous years. A slump in the growth rate of the manufacturing sector, from 20.1 percent in 1987 and 13.4 percent in 1988 to 7.4 percent in 1992 contributed to the declining GNP growth. The export growth rate, which was 36.2 percent in 1987 and 28.4 percent in 1988, fell to just 7.9 percent in 1992[23].

In light of these economic difficulties president Kim Yound Sam at the start of his presidential term designated the creating a new economy as his top priority in the overall effort to create to new Korea. In order to revitalise the economy, the new economic policy is intended to foster private initiative and creativity at all levels of business and free the economy from the constructing government planning and interventions characteristics of the past three decades[24].

After the economic slow down in 1991-93, the Korean economy appears to be in complete recovery. The GNP growth rate recorded a robust 8.4 % per annum in the same year. The investment as a percentage of GDP is 36.1 in 1994 and it is very high in case of South Korea. The savings as a percentage of GDP is also at a high level i.e., 35 pc during 1994 (see table 6.4). The table 6.4 explains the National Accounts of South Korea. The GNP per capita in South Korea in US $ was 10,543 in 1996. The growth rate of GDP and GNP during 1996 was 7.1 pc and 6.9 pc respectively. The growth rates in the case of agriculture, forestry and fishing was 4 pc in 1996 in case of manufacturing it is 7.5 pc in 1996, Service Sector 7.9 pc in 1996. This shows the Korean economy growth depending on manufacturing and service sector. As the economy recovers, the employment situation has also improved. The unemployment rate declined to 2.4% in 1994 from 2.8% recorded a year ago. Despite the economic recovery, price stability does not appear to be at risk. Consumer prices rose by a modest 6.2% per annum in 1994". Table 6.8 explains the exports (increase rate) 5 pc in 1997 and imports (increase rate) was -3.8 pc in 1997. Table 6.9 explains the balance of payments in Korean economy in nineties. The economy is also facing adverse balance of payments since 1994. During 1997, the current balance was $ -8618 millions.

Economic development and structural change in Colombia :

In the Mid-1500s Colombia was Spanish Colony. Spain was drawn to the region by its precious metals and initially concentrated its economic activities there on mining gold and copper. Spaniards found it increasingly difficult to gain access to the colony's mineral deposits, and began putting more emphasis on agriculture. Thus by the end of 18th century, Sugar and Tobacco had become major exports. Colombia achieved independence from Spain in 1819. Payments crises or rapid accumulation of foreign exchange reserves but in general terms the economy adjusted to these shocks without major disruptions. In the late 1970s, the country also turned into a net importer of Petroleum from its earlier exporting position and, as a consequence, had to adjust to rapidly rising petroleum prices as well as increasing quantities of petroleum imports[26].

The Historical experience with Macroeconomic Policies (Colombia):

Background (1962-66) :

Economic prospects began to deteriorate during 1962-66 as the country reached the limits of easy import substitution, and coffee prices collapsed from their levels of the 1950s. GDP growth averaged only 4.7% annually, increases in income per capita were small and the economy suffered from a 17% average yearly inflation. Devaluations in 1962 and 1965 produced little improvement in either the real effective exchange rate or the balance of payments. The 1962 devaluation was followed by within one year by sharp increases in money and wages, which more than offset the devaluation. The second devaluation in 1965 actually represented a revaluation relative to the prevailing free rate which had applied to minor exports and illegal imports[27].

In Table 1, the 1962-66 experience shows how a chronically overvalued peso hindered export diversification, and together with unfavorable coffee prices, led to a binding foreign exchange constraint. The stabilisation efforts which combined "once and for all". Devaluations with import liberalisation were generally unsuccessful, since the devaluations were usually insufficient and the Government failed to coordinate exchange rate, monetary, wage and interest rate policies. Import liberalisation without appropriate upward adjustment in real interest rates and exchange rates resulted in speculative accumulation of inventories of imported goods which placed additional pressure on the balance of payments and ultimately resulted in the reimposition of import controls. The use of selective administrative controls to manage scarce foreign exchange and financial resources resulted in their inefficient allocation, substantial excess industrial capacity and, ultimately, slow growth. Expansionary monetary and wage policies generated inflationary pressures which wiped out the beneficial effects of devaluations and actually worsened the real exchange rate[28].

In view of the relatively slow growth and instability of the economy during the first half of the 1960s, a shift in development strategy was essential. The Lleras Government adopted an innovative foreign exchange regime which had a dynamic effect on the economy through export promotion. Its principal elements were a variety of export incentives, including a tax credit for exporters (CAT), and the reduction of import restrictions on imported inputs and investment goods required for export production[2*].

Conservative demand management held down inflation and improved the real exchange rate for exporters. In response to this policy, non-coffee exports nearly doubled in dollar terms between 1966 and 1970. Official and private external capital inflows also rose sharply, stimulated by a growth of confidence in the new exchange system and rising coffee prices[30]. Table 6.7 explains key macro economic indicators of four development plans. The inflation in wholesale prices during 1966-70 was 6.9 it rosed to double digit later on.

The outward-looking policies had a variety of economic effects in the early 1970s. First growth accelerated, spurred partly by the rise in aggregate demand but also by further improvements in resource allocation. Second, the increased fiscal deficit, largely financed abroad, was prevented from causing a serious balance of payments problem during most of this period through the maintenance of the rate of devaluation and restrictions on imports. However these policies also produced rapid increases in the growth of the money supply and prices. Third, the slowdown in public investment and a neglect of key projects in energy, transport and agriculture, eventually constrained the growth potential towards the end of the decade. Fourth the economy began to diversify in relation to its heavy dependence on coffee, particularly in the area of exports; manufactured exports increased and the production of food crops and livestock expanded. As a result, the economy began to decrease its vulnerability to changes in world coffee prices and at the same time also became more interdependent with the world economy, particularly with that of its Latin American neighbors. Fifth, the shift from import substitution to export promotion led to rapid growth of exports and employment; the marginal effect on employment of export activities was higher than of import-substituting ones. The growth in construction also contributed to the increased demand for labor. Sixth, the availability of domestically produced petroleum insulated the Colombian economy from oil price shock of 1973-74[31].

As a result of the sharp upswing in the Government's external borrowing and the continuance of the trade surpluses into 1979, the balance of payments swung into even greater surplus, producing annual increases in international reserves of almost US $ 1.6 billion in 1979 and 1980.

In 1979 and 1980 imports grew fairly rapidly as a result of the increase in investment , the increase in petroleum imports, the brief liberalisation of automobile imports, and the rise in cereal imports. Together these types of imports accounted for over 75% of the increased ratio of imports to GDP in 1979-80. However, there apparently also was some liberalisation of other imports, both legal and illegal. The rise in imports and the resulting current account deficit in 1980 restrained inflation compared to what might have occurred had the large increases in aggregate demand fallen solely on local production[32].

In 1981 the external economic situation took a turn for the worse, and the problems continued into 1982. The effects on aggregate demand of declining coffee prices were not fully offset, even though the Central Government overall cash deficit rose to 2.5% for the year. While most imports declined relative to GDP. Thus, the ratio of imports to GDP remained at the 1980 level. However, the 1981. International payments were balanced only through an increased inflow of capital, the result of: I) the financial system reform; ii) the easing of restrictions on foreign capital inflows; and iii) the increased public borrowing. In 1982 real GDP growth declined even further, to about 1%, as the adverse external development intensified. At the same time the fiscal deficit widened to 3.4% of GDP".

Overall Performance :

Over the 1960-81 period the economy expanded at an impressive pace of nearly 6% annually in real terms(see table 6.11). With a population growth varying from 3.1% at the beginning of this period to about 2% at present, **GNP per capita** is estimated to have grown by over 3%, reaching US $ 1,380 in 1981. **Total** population is estimated to have risen from 17.9 million in 1964 to about 27 million in 1982. In spite of rapidly falling infant mortality and increasing life expectancy, the population growth rate has dropped sharply on account of the spread of education, urbanisation, greater female participation rates in the labor force and an active birth control campaign. The working age population, on the other hand, was growing at about 3.4% annually up to the late 1970s, contributing to a worsening of labor market indices during the 1960s and early 1970s. Since then, however, a remarkable reversal has taken place; from 1973 to 1978 employment is estimated to have expanded at a phenomenal 6% annually. Growing non-agricultural and urban activities and rising wages have given rise **to** rapid rural-urban migration. As a result a point has now been reached where population pressure in rural areas is no longer increasing much, if at all. Moreover, the combination of rising per capita income, increased employment and expanded public services has brought about a significant improvement in the welfare of the poorest income groups in absolute and relative terms[34].

Prior to 1967. Colombia faced periodic balance of payment crises - produced in some instances by falling coffee prices and in others by the combination **of large** devaluations and import liberalisation to which the Government **responded** with varying degrees of import controls. An outward-looking strategy **was adopted** in early 1967, this combined with the expansion in the world economy **and** domestic demand, turned the situation around during the 1967-74 period. In the second half of the 1970s, the unexpected boom in coffee and illegal crops sustained growth and exports which, together with capital inflows, further increased the international reserve position and debt-servicing capacity of the country. A trade deficit re-emerged in 1981 for the first time in six years on account of declining coffee prices, a deteriorated real exchange rate and the international recession[35].

Growth Trends in Colombia:

A disaggregation of the long-term real growth rate of about 6% into disting time periods brings out significant differences over time shown in table 12. Until 1967, the economy was growing on average at a rate distinctly less than 5%, largely based on production for domestic consumption. Low coffee prices and declining terms of trade exerted a dampening effect on economic expansion. Diversification and expansion of non-coffee exports, together with increasing domestic savings and investment resulting from the gradual liberalisation of the financial system, propelled a significant take-off during 1967-74 when the growth rate averaged nearly 7%. A growth rate slightly above 5% was maintained during 1974-78 when coffee and illegal exports experienced a boom. The pace of growth has tapered off since then, first as some of the stabilisation measures directly or indirectly restrained expansion below the economy's potential and then as the world economy went deeper into recession[36].

Taking into account both growth rates and sectoral shares, contributions to GDP growth of individual sectors have been calculated in Table 6.11. Details for all sectors are given in Table 6.11. Agriculture, manufacturing and trade combined have accounted for about three-fifths of total GDP increment during 1960-81. Transport, Communication and Power have maintained a high and steady expansion but their proportions in incremental GDP have been held down by the smaller relative sizes of these sectors. The growth rate for agriculture has been less then the average for the economy, characteristic feature of the growth process of most countries as demand shifts relatively more towards secondary products and services; nevertheless, the high share of agriculture in GDP has helped to maintain its prominent contribution to economic growth. In exports, in particular, it has played a dominant role in generating foreign exchange. Prior to 1974 manufacturing grew well above average, making the most significant contribution to GDP, closely followed by trade. Since 1974-78 agriculture and trade-fueled by the coffee boom-have had the leading edge[37].

During 1978-81 the three traditionally major sectors grew at rates below average, although agriculture and trade did not suffer as much as manufacturing. The contributions of the remaining sectors belonging to the services category helped to improve the overall situation. For instance, the contribution of public administration and defence to incremental GDP was elevated to about 11% from less than 5% in 1974-78. The construction sector which had fluctuated widely contributing about 5% to the 1967-74 growth and 2% in 1974-78, raised its share in GDP increment to over 6% in response to increased amounts of the foreign exchange earning invested[38](see table 6.11).

Structural Change :

The Colombian economy has undergone a significant structural transformation not unlike the experience of other countries going through a comparable growth process. Over the period 1960-81, manufacturing, power, transport and communication, trade and service grew faster than the average of 6% per year for the economy, while agriculture, mining and public administration grew slower, which changed the relative sectoral shares. From 1960-64 to 1978-81, the agricultural share fell from 33% to 26% while manufacturing and trade rose from 16.5% to 18% and from 16% to 19%, respectively as shown in Table 13. The share of construction does not show a secular trend[39].

The trend of a falling share of primary activities and rising shares of secondary and tertiary activities is normally associated with shifting demands during economic growth. The Colombian experience in fact, reveals less structural changes then might be expected on average: for instance, the share of agriculture remains about twice the average for countries of Colombia's income range, reflecting the continuing large proportion of high-value crops and the relative uniformity in the performance of various sectors[40]. Table 6.12 explains the main economic indicators from 1988 to 1996.

Table 6.13 explains the net distribution of Official Development Assistance in these countries. During 1980 the total ODA to Colombia was $ 90 million, 1985 of 62 million and in 1991 it was $ 123 million. In the case of Korea the Total ODA in 1980 $ 139 million in 1985, $ -9 million and it was $ 54 million. Regarding India the total ODA during 1980 it is $ 2146 millions it reduced during 1985 i.e., $ 1592 million and started increasing in 1991 i.e., $ 2747 millions Colombia got very major share in ODA next it is India. ODA as a percentage of GDP, Colombia is getting major share in 1980 i.e., 2.2 percent, in 1985 it is 1.9% and In 1991 it Is 6.6%, whereas the ODA Share In GNP Is **very meager and** also in Indian Case(see graph 6.1).

Table 6.14 explains the aggregate net resource flow and net transfer to Colombia, South Korea and India. The net flows on long term debt is higher in the case of South Korea and India rather than Colombia i.e., during 1970 the net flows on long term debt in Korea is $271 million increased to $ 2924 million in

1992. In India the same is $ 594 million in 1970 and rose to $ 3393 million in 1992. But as seen from the data regarding Colombia the flows is $115 million in 1970 and during 1992 it was $ 808 millions only. Colombia suffered with severe debt problem yet it is the only country which faced from this situation among the Latin American countries. That is the reason why Colombia has not opted for more net flows to finance debt. The official grants are more in the case of India rather than South Korea and Colombia. Colombia opted for more net FDI than South Korea. The Govt. of Korea had objection in allowing FDI was due to its reluctance to share the ownership and control of Korean enterprise with foreign, especially Japanese enterprises(see graph 6.2).

Table 6.15 explains the Gross domestic investment and Gross domestic savings in the case of these three countries. During 1965-73, the Colombia's GDI is 18.9% it rose to 19.9% in 1980-87, the GDS during the same period is 15% in 1965-73 and 16% in 1980-87. In the case of Korea, the GDI is 23.9% during 1965-73 it rose to 30.4% during 1980-87. The GDS during 1965-73 was 17.6% and it increased to 30% during 1980-87. In the case of India the GDI during 1965-73 was 18.4% it rose to 24.5% during 1980-87. The GDS during 1965-73 in the same country was 16.9% and it rose to 22.8% during 1980-87. The percent of GDI and GDS in case of Colombia was less when compared with South Korea and India. The South Korean economies GDI and GDS are higher compared to India.

The composition of debt outstanding from official sources during 1970-72 in the case of Colombia was 68.2% and it reduced to 53.8% in 1987. The debt from private sources during 1970-72 was 31.8% and rose to 46.2% in 1987. In the case of Korea the debt from official sources was 35.2% during 1970-72 and it rose to 38.1% in 1987. The debt from private sources with regard to the South

Korea was 64.8% during 1970-72 and it declined to 61.9% in 1987. **Regarding** India, the debt from official sources is 95.1% during 1970-71 and declined during 1978 i.e., 75.5%. The debt from private sources is very less in case of India i.e., 4.9% during 1970-72 and 24.5% in 1987. In case of Colombia the debt from official sources were greater. In case of South Korea the debt from private sources were greater. It owes more to the private creditors rather than official creditors.

Table 6.16 explains the long term debt and short term debt of major in debted countries. Here the data relating to India and South Korea which comes in the list major debtor countries list, the table has the data from 1980 to 1994 .The share of long term debt in the case of India is high compared to South Korea. In 1980, the share of long term debt in India is 89.08 pc it rose to 90.50 pc in 1994, but in case of South Korea the share is 61.86 in 1980 and it is 74.53 in 1994. Regarding the share of short term debt, South Korea has high share rather than India. In South Korea the short term debt in 1980 was 35.82 percent and in 1994 it was 25.47 percent which declined a lot. While in Indian case, the short term debt in 1980 was 6.18 percent and it still declined to 5.14 percent in 1994 by this it can be concluded that both South Korea and India are opting more for long term finances rather than short term finances.

Table 6.17 explains, the share of India's exports and Imports to South Korea and Colombia. Regarding the export share, the South Korea is importing 1.01 percent in 1991 and it increased to 1.39 percent in 1991-92 . But during 1992-93 the share of exports to this country started declining. In 1995-96 it again increased 1.36 percent. The share of India's imports from South Korea during 1991 is 1.50 percent, during 1993-94 it is 2.42% which increased a **lot, but** during 195-96 it is 2.23 percent. India's share in imports are more than exports to South Korea. India's exports to Colombia are very negligible. During 1991

Colombia is importing 0.01 percent, it started raising in 1995-96 i.e., 0.06 percent. Colombia exported 0.093 percent in 1990-91 in total India's imports and during 1994-95 it increased to 0.174 percent, but during 1995-96 it was 0.029 percent.

Table 6.18 explains the basic data relating to three countries since 1965-90. Colombia's GDP in 1990 is $ 41120 million where as India's is $ 2,54,540 million and South Korea's $ 2,36,400 million. India's GDP is greater than Colombia and South Korea. The GNP per capita during 1990 in Colombia was $ 1260 million, in India it is $ 350 million and South Korea $ 5,400 million. The average annual growth rate since 1965-90 in the case of Colombia 2.3 percent, India 1.9 percent, and South Korea 7.1 percent. The Table also explains average annual inflation rate 1980-90, in Colombia the inflation is 24.8 percent, India it is 7.9 percent and South Korea it is 5.1 percent. Colombia's external debt as a percent of GNP in 1990 was 44.3 percent, India 25.0 percent and South Korea 14.4 percent (see graph 6.3).

Table 6.19 explains the GDP at constant prices from 1967 to 1996 in case of three countries. The GDP growth rate in India during 1972 was -0.7% and -4.8% in 1979. During 1980 the GDP growth in the case of India was 6.5%, and it is -2.2% in case of South Korea and 0.8% in case of Colombia. The growth of GDP is very slow in the case of Colombia than the other two countries.

Table 6.20 explains the balance of payment portion in three countries. The exports of goods and services as percent of GDP in case of India is lesser than South Korea and Colombia. The Korean economy is exporting a greater percentage in its GDP to other countries. In case of imports of goods and services as a percentage of GDP, the Indian economy is importing more percentage in its GDP than the exports. The Korean economy imports also greater(see graph 6.4).

Table 6.21 explains the investment as percentage of GDP. In case of these three countries, the investment rate is higher in Korean economy compared to India. The date clearly shows that the investment rate in case of Colombia is low.

Table 6.22 explains the labour force in these countries. The Korean economy is absorbing more labour in various sectors and thereby providing employment opportunities. The Colombian economy also producing goods by employing more labour. Regarding the Indian case, the economy is not properly using the manpower resources which are abundance in the country. To lessen the unemployment problem, the Government should absorb more labour in its economic activities.

Table 6.23 explains the inflation rates in these economies, the data explains that Colombia suffered with hyper inflation. The frequent changes in the Coffee prices and the economy faced severe crisis during seventies. These are the reasons for high inflation during that period. There is no single digit inflation from 1966 to 1991 in case of Colombia. During 1974, 1975 .and 1980 Korea also suffered with high inflation. Indian economy also faced double digit Inflation between 1990 and 1996. During 1997 and 98, the inflation rate came down to single digit.

The South Korea received large amount of aid in 1950s and 1960s, which then declined sharply. Its economy has grown rapidly and its domestic savings rose from 6.9% of GDP in 1953-55 to 18.7% in 1974-76. Its external trade remained roughly constant, at around 9% of GDP, while aid's share in financing it fell from 60% to 17%[41] . In certain respects, India has followed a similar pattern, in that its nets inflow of foreign aid peaked during early 1960s. Gross Domestic Savings rose from around 13% of GDP in the early 1960s to 21% in the late 1980s. The ratio of Gross Aid Utilisation to Domestic Investment has steadily fallen from 11% in 1975 to only 3.7% in 1985-86. India's ability to use aid effectively is much better than that of many countries and has improved considerably over the years[42].

In India both food and financial aid, though modest in relation to the whole economy, have at critical times eased savings and foreign exchange constraints and permitted faster growth than would otherwise have been possible. In addition aid's contribution to India's agricultural production, particularly through the Green Revolution has itself had major macro economic effects. Aid has obvious had a part to play in developing and disseminating higher yielding agricultural technologies. India is again a good example of where aid has given high returns in promoting agricultural research[43].

In India, aid has never exceeded 2 to 3 percent of GNP, but it has been of macro economic importance. In some years, it has released a savings or a foreign exchange constraints and been valuable to the economy despite its modest size. One of the most significant macro economic contributions of aid to India has been in its contribution to the Green Revolution and enlarging food and agricultural output. Before it happened, the Indian economy was grinding to a halts whenever there was a bad harvest, and large foreign exchange expenditures were required for food imports. It can truly be said that the high yielding grain varieties have helped to transform the Indian economy[44].

The role aid in land reform is likely to be limited. The circumstances in which land reform was implemented in Taiwan and donor pressure exerted in South Korea were products of politics and history that will not be repeated else where. Donors seldom succeeding persuading government to adopt land reform unless the later are anyway inclined to do so. Where that is the case, however donors obvisouly help to overcome financial and other constraints on land reform[45].

South Korea after liberation there were two important institutional changes in agriculture and industry which had significant long term implications for the country's economic development. Land reform was initiated in 1948. It set a limit of 3 hectares on the ownership and virtually abolished tenancy. The land lord's land was virtually confiscated and redistributed. This reform had reduced the social and political tensions in the country side. This also lead to increase in agricultural production and more even distribution of income and wealth[4*]. An essential complement to such reform was the creation of alternative sources of employment for a growing rural population. India, on the other hand is often cited as an example of how the failure to implement land reform has been a prime cause of the persistence of rural poverty. In those regions of India where land reforms has been vigorously pursued-West Bangal being an obvious case-there is evidence of a beneficial effect on poverty. India's land ceiling legislation may also have had some redistribution effect recently, offsetting the earlier trend back towards tenant forming[47].

For the comparative study of India, South Korea and Colombia, the following equations were estimated using the variables, GNP (Y), Savings , Aid, Pvt. Invest., GDCF, Exports and Labour Force.

$Y = a + a_0'\,\text{Savings} + a1'\,\text{Aid}$

$Y = a + a_0'\,\text{GDCF} + a_2'\,\text{Aid}$

$Y = a + a_o' \text{ Saving} + a_2 \text{ Aid} + a_3 \text{ Pvt. Invest.}$

$Y = a + a_o' \text{ Saving} + a_2 \text{ Aid} + a_3 \text{ Lab. Force}$

Equation 1:

India :

$$Y = 101950 + 0.017 \text{ Savings} + 14.98 \text{ Aid}$$

(13.4) (0.09) (4.54)

$R^2 = 0.86$

Korea :

$$Y = 1310.946 + 3.9 \text{ Savings} + 2.76 \text{ Aid.}$$

(0.13) (13.60) (1.94)

$R^2 = 0.96$

Colombia :

$$Y = 35795.93 + 0.2211 \text{ Savings} - 0.2584 \text{ Aid.}$$

(16.6) (0.33) (0.24)

$R^2 = 0.04$

Equation 2:

India :

$$Y = 85388.18 + 0.8121 \text{ GDCF} + 11.22 \text{ Aid.}$$
$$(2.42) \qquad (0.48) \qquad (1.32)$$
$$R^2 = 0.86$$

South Korea :

$$Y = 5076.992 + 4.22 \text{ GDCF} - 0.824 \text{ Aid.}$$
$$(0.57) \qquad (15.08) \qquad -(0.70)$$
$$R^2 = 0.97$$

Colombia :

$$Y = 35591.59 + 0.30 \text{ GDCF} - 0.20 \text{ Aid.}$$
$$(16.11) \qquad (0.44) \qquad -(0.19)$$
$$R^2 = 0.05$$

Equation 3:

India :

$$Y = 1174 - 0.161 \text{ Savings} + 5.59 \text{ Aid.} + 10.05 \text{ Pvt. Invest.}$$
$$(13.97) \qquad -(0.11) \qquad (1.25) \qquad (2.52)$$
$$R^2 = 0.92$$

Korea :

$$Y = 12449.66 + 2.37 \text{ Savings} + 4.38 \text{ Aid.} + 100.24 \text{ Pvt. Invest.}$$
$$(0.72) \qquad (1.24) \qquad (1.77) \qquad (0.80)$$

$R^2 = 0.96$

Colombia :

$$Y = 35503.96 + 0.419 \text{ Savings} + 0.4157 \text{ Aid.} - 1.93 \text{ Pvt. Invest.}$$
$$(14.78) \quad (0.49) \quad (0.20) \quad -(0.40)$$

$R^2 = 0.06$

Equation 4:

India :

$$Y = 164657.8 + 0.4718 \text{ Savings} + 11.528 \text{ Aid.} - 254.0849 \text{ Labour Force}$$
$$(1.06) \quad (0.41) \quad (1.25) \quad -(0.40)$$

$R^2 = 0.86$

Korea :

$$Y = 459645.7 + 6.081 \text{ Savings} + 2.429 \text{ Aid.} - 31.33671 \text{ Labour Force}$$
$$(2.77) \quad (7.46) \quad (2.30) \quad -(2.77)$$

$R^2 = 0.98$

Colombia :

$$Y = 32338.75 - 0.06120 \text{ Savings} - 0.3656 \text{ Aid.} + 0.4397 \text{ labour Force.}$$
$$(1.11) \quad -(0.02) \quad -(0.24) \quad (0.12)$$

$R^2 = 0.04$

The above stated equations reveal that as per the GNP-Saving-Aid relationship is concerned in the context of India and South Korea are satisfactory in terms of R2 values and significant t-ratios. But Colombia, the values of R2 and the t-ratios were too low.

The equation of GNP, GDCF and Aid shows that in Korea GDCF has **an impact** on GNP with high t-ratio and also a very high R2 of 0.97, but aid **has a negative** impact on GNP as the extent of aid to Korea was quite negligible. **The equations** for India seems to be normal and again for Colombia, there seems to be insignificant relationship between these variables.

As per the equation relating GNP, Savings, Aid, and Pvt. Investments., **the** results are quite satisfactory in the context of both India and Korea where as for Colombia, the goodness of fit is poor and t-ratios are insignificant.

The impact of Labour force in the equation 4 reveals an insignificant coefficient for India and Colombia, whereas it has a significant negative impact in Korea's context.

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Table 6.1

GDP Growth, Rates of Investment
Incremental Capital output Ratio (ICOR) in Indian Economy

S.No.	Period	Growth in GDP at factor cost %.	Investment rate %	ICOR
1	1951-52 to 1955-56	3.61	10.66	2.95
2	1956-57 to 1960-61	4.27	14.52	3.4
3	1961-62 to 1965-66	2.84	15.45	5.44
4	1966-67 to 1970-71	4.66	15.99	3.43
5	1971-72 to 1975-76	3.08	17.87	5.8
6	1976-72 to 1980-81	3.24	21.47	6.63
7	1981-82 to 1985-86	5.06	20.98	4.15
8	1986-87 to 1989-90	5.81	22.7	3.91
9	1990-91 to 1991-92*	5.31	23.17	4.36

Note : Estimates are based on the New series of NAS, CSO.

*** The average growth rate, investment rate and ICOR for a seven year period has been workedout by including the estimates of growth and investment rate for 1990-91 (1985-86 to 1991-92) as reported in the Quick estimates of CSO (released in Feb.' 92) and by assuming a growth rate of 2.5% for 1991-92 (as projected in Economic Survey 1991-92).**

Source : Eighth Five Year Plan document 1992-97, vol.1, p.3.

Notes: The above table explains us that during the first year plan, the growth of GDP at factor cost is 3.61%. The rate of investment is 10.66. The capital output ratio is 2.95. During the second plan the growth of GDP at factor cost increased and it starts reducing during third plan. During 1966-81 it was unstable but during 1981-92 the GDP growth was stable i.e., 5 percent. The rate of investment increasing tremendously due to increasing developmental activities of the Government, starting new industries etc. The ICOR is 5% in 1961-66. 5.8 % 1972-76, 6.63% in 1976-81.

Table 6.2

Real Growth during Five Year Plan

Plan	Real Income growth			Sectoral growth (% per annum)		
	Targeted growth in terms of	Plan Target	Actual growth	Agriculture	Industry	Service
First Plan	NNP	2.1	3.6	2.9	5.9	37
Second Plan	NNP	4.5	3.9	3.2	6.4	46
Third Plan	NNP	5.6	2.3	-0.5	6.8	5
Fourth Plan	NDP	5.7	3.2	2.6	3.7	4
Fifth Plan	GDP	4.4	4.8	3.4	6.3	55
Sixth Plan	GDP	5.2	5.7	5.5	6.2	54
Seventh Plan	GDP	5	5.8	3.4	6.5	74
Eighth Plan	GDP	5.6	-	3	7.1	61

Source : Basic statistics relating to Indian Economy, CMIE, Aug. 94.

Table 6.3

Growth Rates of GDCF and Gross Savings

Plan Period	GDCF		Gross savings at current prices
	prices	at 1980-81 prices	
First Plan (1951-56)	12.5	9.5	9.5
Second Plan (1956-61)	12.7	7.5	8.5
Third Plan (1961-66)	11.9	6.8	13.1
Annual Plans (1966-69)	59	-3.1	7.7
Fourth Plan (1969-74)	19.1	9.7	20.4
Fifth Plan (1974-79)	15.7	6.5	16.2
Annual Plan (1979-80)	4.2	-10.6	2.3
Sixth Plan (1980-85)	12.6	1.9	11.4
Seventh Plan (1985-90)	21.9	11.7	21.1
Annual Plan (1990-91)	19.6	11.2	16.4
Annual Plan (1991-92)	2	-15.8	11.7
Annual Plan (1992-93)	16.3	16.7	10.3
Average (1951-93)	14.1	6.2	13.5

Source : R.K. Gupta Issues in Indian Economy p.67, 1995 Atlantic Publishers and Distributors.

Table 6.4

Sectorial Distribution of GDP

Year	Agriculture	Industry	Service sector
1950-57	56 46	15.05	' 28.49
1959-60	52.21	18.27	29.35
1969-70	45.06	23.02	31.92
1979-80	37.55	25.35	37
1989-90	33.29	27.6	39.11
1992-93*	32.31	26.88	40.81

*** Quick estimates**

Source : R.K. Gupta Issues in Indian Economy p.47, 1995 Atlantic Publishers and Distributors.

Table 6.5

Republic of Korea Economic Indicators, 1987-94

(percent unless otherwise indicated)

Item	1987	1989	1990	1991	1992	1993	1994
GDP Growth	11.5	6.4	9 5	9.1	5.1	5.8	8 4
Inflation	3	5.7	8.6	9.3	6.2	4.8	6.2
Increment/GDP	29.8	33.6	36.9	38.9	36.6	35.1	36 1
Savings/GDP	35.5	35.7	35.5	35.7	34.5	34.8'	35

Source : International Monetary and Financial Issues for the 1990s. vol.8, UN p.101.

Table 6.6

South Korea's National Accounts[1]

(unit : as indicated)

Item	1993	1994	1995	1996
GDP[2] (US $ Hundred Mill)	3328	3807	4565	4844
GNP[2] (US $ Hundred Mill)	3308	3780	4526	4804
Per Capita GNP[2] (US $)	7484	8467	10037	10543
Growth Rate (%)				
GDP	5.80	8.60	8.90	7.10
GNP	5.80	8.40	8.70	6.90
GNP Deflator[3]				
Indexes	122,7	129,4	136,7	141,4
Growth rate (%)	5.1	5.5	5.6	3.4
Growth rate by kind of economic activity (*/•)				
All Industries	6.40	8.80	9.10	7.20
Agriculture, Forestry & Fishery	-2.90	1.60	3.70	4.00
Manufacturing	5.00	10.40	10.80	7.50
Services	7.60	10.80	10.10	7.90
Increase rate by kind of expenditure (%)				
Final Consuption expenditure	5.30	7.00	7.20	6.90
Private consumption	5.70	7.60	8.30	6.80
Gross fixed capital formation	5.20	11.80	.11.70	7.10

1. The figures are based on 1990 Constant Prices.
2. The figures are the Current Balance.
3. The figures computed using 1990 = 100 as the base year

Source : Internet at : http://www.mofe.go.kr/engllsh/data/E_ECONO_TREND_SDATA/csd5_1 html

Table 6.7

Employment and wages [1]

Unemployment rate %	1992	1993	1994	1995	1996	1997
(Employment by Industrial Sector composition, %)	2.4	2.8	2.4	2	2	2.6
Agriculture, Forestry & Fishery,	15.8	14.7	13.6	12.5	11.6	11
Mining & Manufacturing	25.8	24.4	23.9	23.6	22.6	21.4
Social & other	58.4	60.9	62.5	64	65.8	67.6
All Industries	15.2	12.2	12.7	11.2	11.9	
Manufacturing	15.7	10.9	15.5	9.9	12.2	

Note: 1. Percent change from corresponding period.

Source : Internet at : http://www.mofe.go.kr/english/data/E_ECONO_TREND_SDATA/csd5_1.html

Table-6.8

Exports and Imports[1]

1992	1993	1994	1995	1996	1997
76632	82236	96103	125058	129715	**136164**
[6.6]	[7.3]	[16.8]	[30.3]	[3.7]	[5]
81775	83800	102348	135119	150339	**144610**
[0.3]	[2.5]	[22 1]	[32.0]	**[11.3]**	**[-38]**

Notes : 1. Reference dates are based on the customs clearance dates. Exports are valued at FOB Imports at CIF
2. Percent change from corresponding period.

Source : Internet at : http://www.mofe.go.kr/english/data/E_ECONO_TREND_SDATA/csd5 1 html

Table-6.9

Balance of Payments of South Korea

[US$ million]

	1992	1992	1994	1995	1996	1997
Current Balance	-3943	990	-3867	-8508	-23005	-8618
Goods	-1755	2319	-2860	-4444	-14965	-3875
Exports	76199	82089	94964	124632	129968	138587
Imports	77954	79771	97824	129076	144933	142462
Services	-2884	-2126	-1801	-2979	-6179	-2929
Income Balances	-396	-391	-487	-1303	-1815	-2677
Unrequited transfers(Net)	1091	1188	1280	218	-46	862

Source : Internet at : http://www.mofe.go.kr/english/data/E_ECONO_TREND_SDATA/csd5_1.html

Table 6.10

Key Macroeconomic indicators of four development Plans

Item	1966-70	1970-74	1947-78	
Real GDP	**5.9**	**6.7**	5.6	3.2
Inflation(blue collar workers)	**7.3**	**18**	23.5	**263**
Inflation (wholesale prices)	**6.9**	23.1	23.1	25
Money Supply Growth (June to June)	18.5	19.7	30.1	25.1
Percentage of GDP[1] (unless indiated other)				
Central Government: Investment/Total expenditure[2]	39.2	372	29	275
Overall Deficit[2]	**0.7**	**1.2**	-0.4	1.6
Merchandise Imports	10.4	11.1	10.8	12.8
Real Marchandise Imports	**10.4**	**10.3**	9.4	**11.8**
Merchandise Exports	9.1	**11.3**	11.9	10.1
Balance of Payments Surplus	**0.9**	**0.7**	2.7	1.6

1. The periods considered are : 1967-70, 1971-74, 1975-78 and 1979-82.

2. These figures are based on the Central Government's cash operations.

Source: Banco de **la Rebublica, DANE and mission estimates.**

TABLE-6.11

Contribution of Selected Sectors to Growth, 1960-81

(in percentage)

Year	Real Growth Rate				Sectorial Contribution to Growth			
	Agriculture	Manufacturing	Trade[2]	GDP	Agriculture	Manufacturing	Trade[2]	Total[3]
1960-64	3.1	5.9	6	4.8	21.1	20.2	20	100
1964-67	2.9	5.1	4.7	4.6	19.3	18.8	16.9	100
1967-74	4.3	8.6	8.3	6.7	18	23.1	21.4	100
1974-78	4.5	5.2	7.4	5.4	21.9	18	25.5	100
1978-81	3.2	1.5	2.7	37	22.2	7.3	13.8	100
1960-81	4.2	6.4	6.8	5.7	20.5	20	21.2	100

1. Sectorial growth rates weighted by the corresponding sectoral shares in GDP

2 Comprised of commerce, banking, finance and insurance.

3 The other sectors' contribution to growth is not shown, therefore the sum of Agriculture, manufacturing and trade does not add to 100%.

Table 6.12

Colombia Main Economic Indicators

	1988	1989	1990	1991	1992	1993	1994	1995	1996[a]
Growth and Investment[b]									
GDP	4.20	3.40	3.80	1.60	4.00	5.80	6.00	5.90	2.20
Percapita GDP	2.10	1.30	1.80	-0.40	2.00	3.80	4.10.	4.00	0.50
Gross National Income	3.70	1.60	3.80	4.90	5.00	4.90	9.50	5.50	1.70
Percentages of **GDP**[b]									
Gross Demestic Investment	21.70	19.50	18.50	16.70	22.90	29.90	35.80	37.10	35.70
National Savings	21.10	18.90	19.90	23.00	25.40	24.30	27.80	27.30	25.00
Employment and Wages (%)									
Labour Force Participation Rate[c]	57.90	57.60	58.40	59.50	60.80	60.10	60.00	59.90	59.70
Open Unemployment Rate	11.30	9.90	10.50	10.20	10.20	8.60	8.90	8.80	11.20
Balance of Payments (millions of $)									
Exports	5328	4306	4449	3814	5200	4505	6439	6827	6751
Imports	5453	6025	6704	5766	5325	5100	5093	5502	6186
Overall Balance	193	434	610	1763	1274	464	162	348	1480
Contribution to Growth of GDP (%)									
Exports	0.60	1.40	3.60	2.10	1.50	2.30	0.10	1.40	0.90
Imports	-1.60	0.40	-1.60	-0.20	-6.20	-9.80	-6.40	-3.50	-1.50
External Debt (•/.)									
Gross Debt as a % of GDP	43.40	43.40	42.60	40.70	33.10	33.90	32.00	30.30	30.80
Net Debt as a % of Exports	17.30	18.10	15.30	12.40	9.90	7.40	8.20	6.70	9.90

a. Preliminary figures; b. Based on constant 1980 dollars; c. Percentages of the working-age population

d. These entries measure the impact of the variation in each aggregate on GDP growth. The coefficients were obtained by multiplying each aggregates annual growth rates by the level of that same aggregate as a percentage of GDP

Source : **Economic Survey of Latin America and Caribbean 1996-97, p. 182 UN.**

Table 6.13

Net disbursements of official development Assistance to selected countries

Country	'Total n($ mil)			Percap ta US $			As Percentage of GNP		
	1980	1985	1991	1980	1985	1991	1980	1985	1991
Colombia	90	62	123	3.4	2.2	3.8	2.2	1.9	6.6
South Korea	139	-9	54	3.6	-0.2	1.3	0.2	0	0
India	2146	1592	2747	3.2	1.9	3.2	1.3	0.7	1.1

'Source: World Economy and India's place in it. CMIE OCT. 1994

Table 6.14

Aggregate Net Resource Flows and Net Transfers

(in US $ Mil.)

Country	Netflow on long term debt.		Official grants		Net FDI		Portfolio Equity Flows	Aggregate Net Resource flows		Aggregate Net transfers	
	1970	1992	1970	1992	1970	1992	1992	1970	1992	1970	1992
Colombia	115	808	21	49	43	790	0	179	-78	26	-2271
South Korea	271	2924	119	6	66	6	0	456	5899	374	3673
India	594	3393	157	675	6	151	240	757	4460	565	1614

Source: World Economy and India's place in it. CMIE OCT. 1994

Table-6.15

Flow of External Capital - Public and publicly guaranteed medium and long-term loans

	1970	1980	1970	1980	1970	1980	1970	1980
India	**890**	**2477**	307	**636**	583	**1841**	6	
Columbia	**235**	1005	75	**264**	160	**741**	39	**233**
South Korea	**440**	3548	198	**1452**	**242**	**2096**	**66**	-5

Investment, Saving 1965-1987

Country	GDI			GDS		
	1965-73	1973-80	1980-87	1965-73	1973-80	1980-87
Colombia	18.9	18.8	19.9	15.8	19	16 '
South Korea	23.9	31	30.4	17.6	25.7	30
India	**18.4**	**22.5**	24.5	16.9	22.2	**22.8**

Composition of Debt outstanding 1970-87

(percentage of total long-term debt)

Country	Debt from official sources			Debt from private sources		
	1970-72	1980-82	1987	1970-72	1980-82	1987
Colombia	68.2	46.1	53.8	31.8	**53.9**	46.2
South Korea	35.2	34.3	38.1	**64.8**	65.7	61.9
India	95.1	**91.1**	75.5	4.9	89	24.5

Source : World Development Report 1989.

Table 6.16

Long-Term debt of Major Indebted Countries

Year	1980	1987	1988	1989	1990	1991	1992	1993	1994
India	18334	46032	49512	64322	70816	73426	78684	**83438**	**89589**
South Korea	18236	29992	25936	22999	24187	28534	**32237**	**35003**	**40652**
					total de				
India	89.08	82.6	84.72	87.65	86.38	87.47	**87.6**	**90.59**	**90.5**
South Korea	61.86	75.34	72.62	70.12	69.13	71.81	73.01	**74.15**	**74.53**
				fcV* d	[illegible]				
India	1271	5673	6358	7501	8544	7070	6340	3626	5089
South Korea	10561	9291	9780	9800	10800	11200	11920	12200	13890
					total debt				
India	6.18	10.18	10.88	10.22	10.42	8.42	**70.6**	**3.94**	5.14
South Korea	3582	23.34	27.38	29.88	30.87	28.17	26.99	25.85	**25.47**

Source : World Economy and India's place in it. CMIE Oct., 1994

Table 6.17

India's Exports - Direction of Exports

Share in Total Exports (%)

Country	1990-91	1991-92	1992-93	.1993-94	1994-95	April 1994-95	January 1995-96
South Korea	1.01	1.39	0.94	0.93	1.21	1.21	1.36
Colombia	0.01	0.03	0.05	0.04	0.06	0.07	1.06
	Share in Total Imports (%)						
South Korea	1.5	1.65	1.62	2.42	2.17	2.19	2.23
Colombia	0.093	0.098	0.061	0.063	0.174	0.202	0029

Source : CMIE Foreign Trade Statistics 1996 May.

Table 6.18

Basic Data on three countries 1965 to 1990

Country	GNP per capita					
	1990 GDP in mil US $	1989 Population in millions	1990 in US$	1965-90 Av. Annual Growth rate . (1985-90)%	1980-90 Av. Annual Inflation rate 1980-90 (%)	1990 External debt of GNP
Colombia	41120	32.3	1260	2.3	24.8	44.3
India	254540	849.5	350	1.9	7.9	25
Korea	236400	42.8	5400	7.1	5.1	14.4

Source: World Economy and India's place in it. CMIE OCT. 1994

Table 6.19

GDP at Constant Prices

Year	India	Korea	Colombia
1967	8.20	5.90	
1968	2.80	11.30	-
1969	6.40	1380	6.30
1970	5.80	8.80	6.60
1971	2.30	9.20	6.00
1972	-0.70	5.90	8.20
1973	3.60	14.40	7.70
1974	0.20	7.90	5.50
1975	9.70	7.10	2.10
1976	1.50	12.90	5.50
1977	8.20	10.10	8.90
1978	6.60	9.70	6.30
1979	-4.80	7.60	4.90
1980	6.50	-2.20	0.80
1981	6.50	6.70	-2.30
1982	3.80	7.30	0.90
1983	7.40	11.80	1.60
1984	3.70	10.10	3.40
1985	5.50	6.20	3.10
1986	4.90	11.60	5.80
1987	4.80	11.50	5.40
1988	9.90	• 11.30	4.10
1989	6.60	6.40	3.40
1990	5.70	9.50	4.30
1991	0.40	9.10	2.00
1992	5.40	5.10	4.00
1993	4.80	5.80	5.40
1994	7.60	8.60	5.80
1995	7.30	8.90	5.40
1996	.	7.1	2.1

Source : International Financial Statistics Year Book 1997

Table 6.20

Balance of Payments

Year	Exports of Goods and Services as a % of GDP			Imports of Goods and Services as a % of GDP		
	India	Korea	Colombia	India	Korea	Colombia
1980	6.5	35	16	9.8	41	**16.3**
1981	6.1	37.9	11.8	9.4	41.2	16.6
1982	6.5	37	11.4	9.3	37.1	17.2
1983	6.4	35.9	9.8	8.5	35.2	14.9
1984	6.6	35.9	13.6	8.8	34.6	**13.9**
1985	6.1	34	12.9	9	32.4	**14.6**
1986	5.8	37.6	18.4	8.5	31.6	14.6
1987	5.9	40.4	18.8	8.7	32.3	15.1
1988	6.1	38.1	17.2	8.9	30.3	**15.8**
1989	7.2	32.3	18.5	10	29.8	**15.5**
1990	7.5	29.3	21.5	9.7	30.1	17
1991	8.5	27.8	22.1	10	30.6	15.4
1992	9.2	28.6	20.9	10.6	29.9	**18.3**
1993	10.2	29	19.6	10.9	28.8	22.4
1994	10.4	29.8	17.4	11.8	30.8	20.3
1995	11.2	32.8	17.1	13.7	34.2	20.1

Source : International Financial Statistics Year Book 1997 p.136-141.

Table 6.21

Investment as a percentage of GDP

Year	India	Korea	Colombia
1967	16.50	22.30	18.50
1968	15.10	26.20	21.20
1969	16.00	29.20	20.50
1970	17.10	25.40	20.30
1971	18.50	25.10	19.90
1972	17.10	22.10	18.40
1973	18.30	2550	18.10
1974	19.80	31.40	21.50
1975	20.80	27.10	17.00
1976	20.90	25.30	17.60
1977	19.80	28.50	1880
1978	22.10	33.10	18.30
1979	22.90	36.00	18.20
1980	20.90	31.70	19.10
1981	25.00	29.50	20 60
1982	22.90	28.60	20.50
1983	21.10	29.00	19.90
1984	21.20	30.10	1900
1985	24.20	29.60	19.00
1986	23.20	28.70	18.00
1987	22.50	29.80	20.00
1988	24.40	31.10	22.00
1989	24.10	33.60	20.00
1990	25.20	36.90	18.50
1991	22.70	38.90	16.00
1992	24.00	36.60	17.20
1993	21.70	35.10	21.20
1994	24.00	36.10	22.40
1995	2620	37.10	22.60
1996	-	38.2	26.2

Source : International Financial Statistics Year Book 1997

Table 6.22

Labour Force (in

Year	India	Korea	Colombia
1972	231.75	12065	6561
1973	235.66	12395	6727
1974	239.57	12724	6893
1975	243.48	13054	7060
1976	247.85	13387	7246
1977	252.22	13724	7433
1978	256.58	14059	7619
1979	260.95	14394	7806
1980	265.32	14729	7992
1981	270.89	15141	8233
1982	276.47	•15553	8473
1983	282.04	15965	8714
1984	287.62	16377	8955
1985	293.19	16790	9195
1986	299.14	17164	9435
1987	305.09	17539	9675
1988	311.04	17914	9914
1989	316.99	18289	10154
1990	322.94	18664	10394
1991	329.23	19423	10645
1992	335.52	19780	10897

Source : International Financial Statistics Year Book 1994

Table 6.23

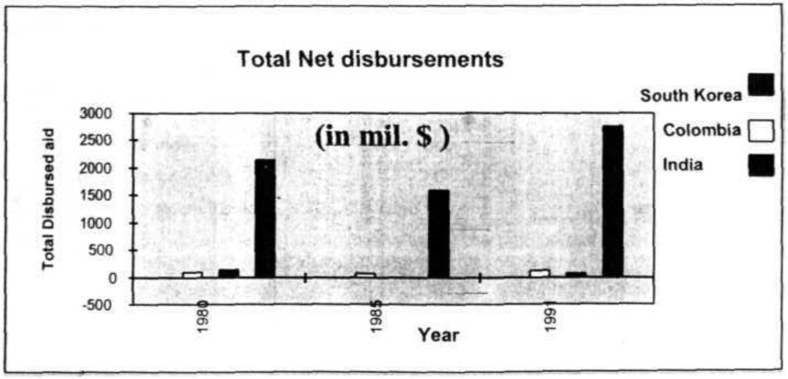
Inflation Rates Cio

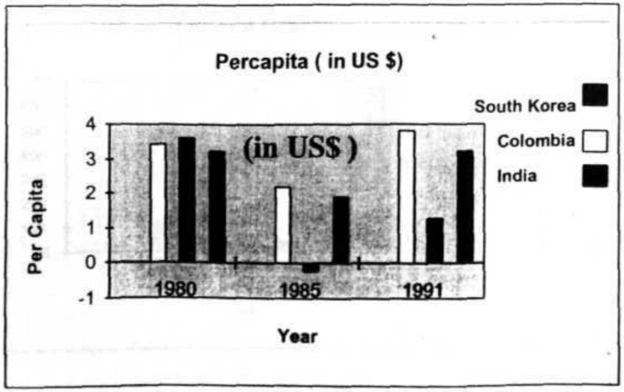
Year	India	Korea	Colombia
1966	10.8		23.1
1967	13.1	10.6	18.8
1968	3	10.9	26.3
1969	0.6	12.5	30.4
1970	5.1	16.1	32.5
1971	3.1	13.4	20
1972	6.50	11.7	74.8
1973	16.90	3.2	361.5
1974	28.60	24.3	504.7
1975	5.70	25.3	374.7
1976	-7.60	15.3	211.8
1977	8.30	10.2	91.9
1978	2.50	14.5	40.1
1979	6.30	18.3	33.4
1980	11.40	28.7	35.1
1981	13.10	21.3	19.7
1982	7.90	7.2	9.9
1983	11.90	3.4	27.3
1984	8.30	2.3	19.9
1985	5.60	2.5	30.7
1986	8.70	2.8	19.5
1987	8 80	3.1	19.9
1988	9.40	7.2	14.7
1989	6.20	5.7	17
1990	9.00	8.6	26
1991	13.90	9.7	21.8

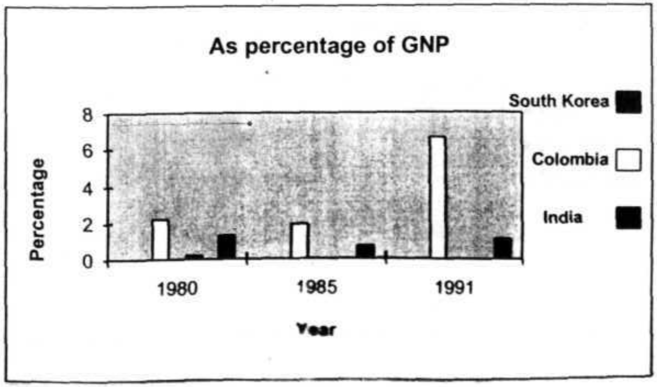
Source : The Macro economic experiences of DCs,
IMD Little Richard N Cooper W Max Corden Sarath Rajapathirana
1994 World Bank

Graph 6.1

Net disbursements of Official Development Assistance to Colombia, South Korea and India

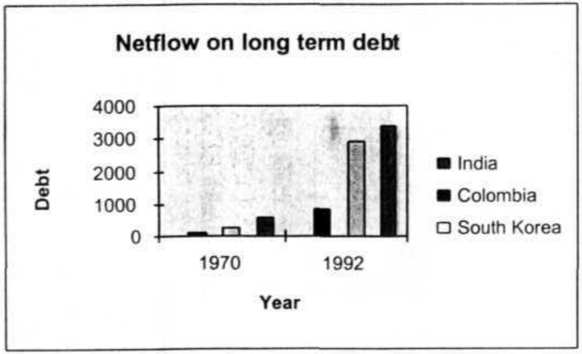


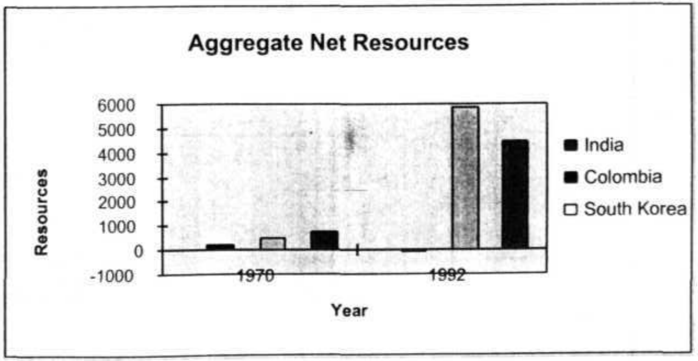


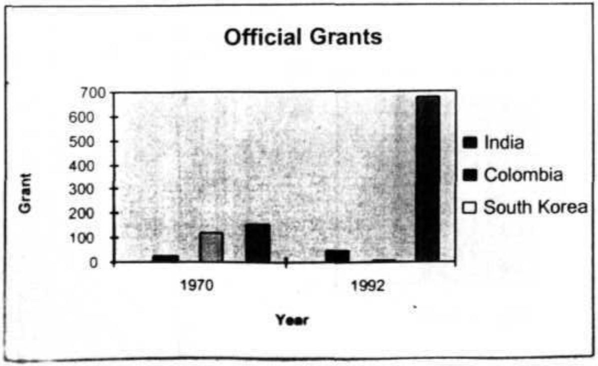


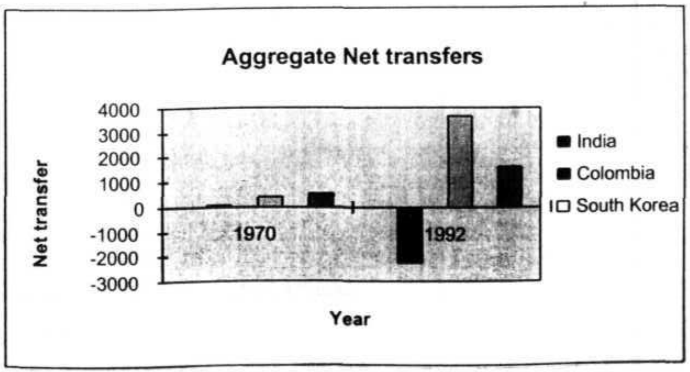
Graph 6.2

Aggregate Net Resource Flows and Net Transfers (in US $ Mil.)



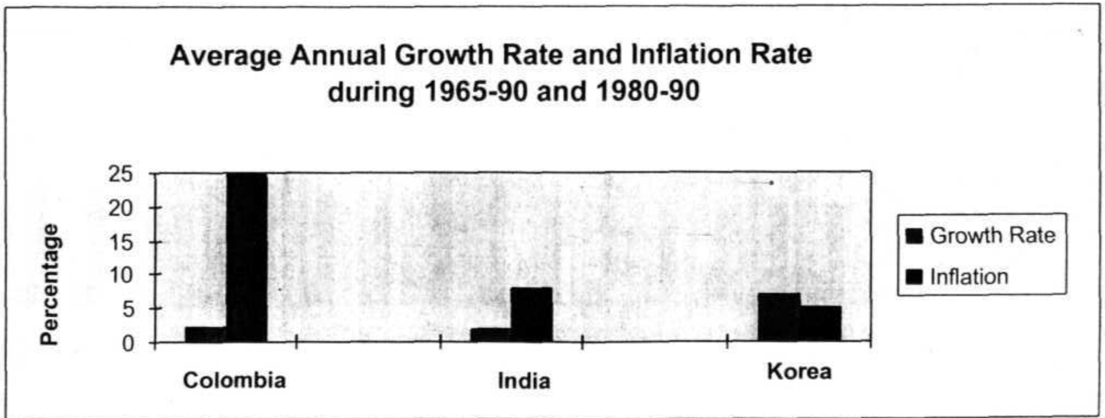


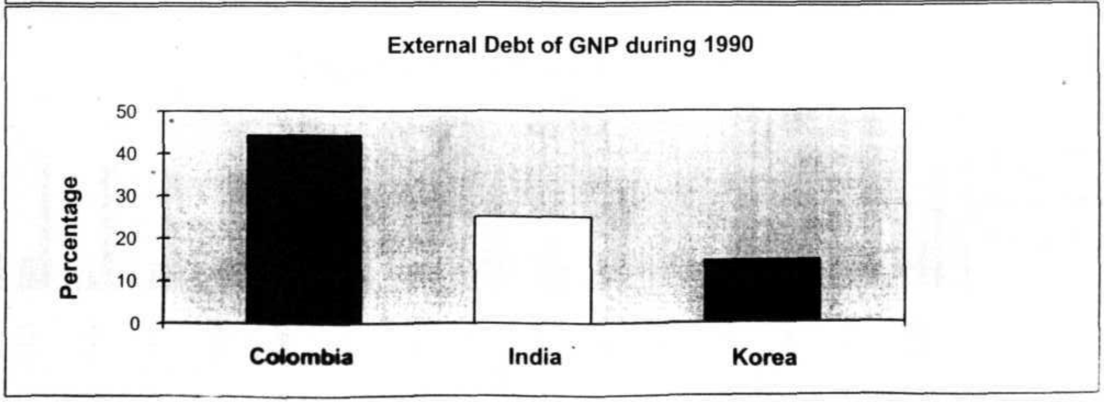




Graph 6.3

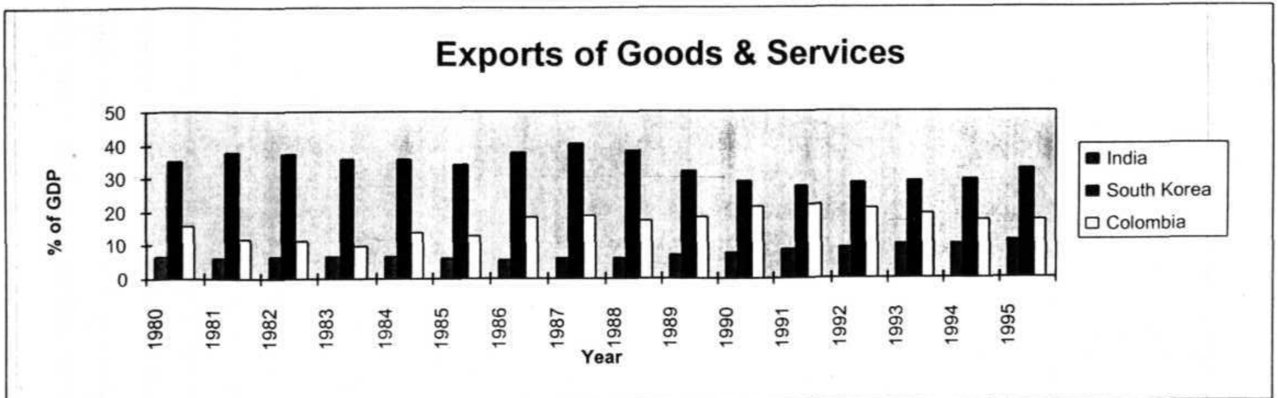
Basic Data on three countries

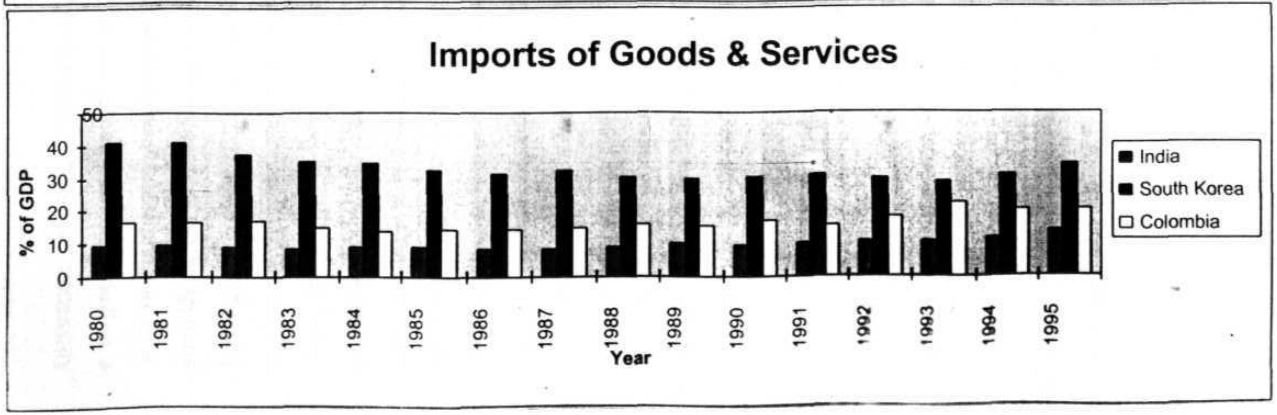




Graph 6.4

Balance of Payments





Chapter - VII
Summary and Conclusions

Foreign Aid is considered as an important instrument of the foreign policy of states after the Second World War. The United States involvement on large-scale aid began with the introduction of the Marshall Plan in the 1947, which brought $ 23 billion of US aid into western Europe during 1947 to 1952. The Marshall Plan involved the rehabilitation of modern highly productive societies temporarily damaged by war and thus worked successfully. The confidence in the efficiency of foreign aid was stimulated by the success of the Marshall Plan in achieving a rapid reconstruction of western European economies. There is a controversial debate on the success of foreign aid in third world countries. The traditional economists argued that aid has indeed helped to promote growth and structural transformation in many Less Developed Countries (LDCs). On the other hand in the view of the radical "new left", economists aid is yet another instrument of world monopoly capitalism designed to exploit the countries of the third world. The World Bank and the USAID are regarded as the creation of world monopoly capitalism designed to propagate the capitalist creed in the Third World. These institutions are accused of using aid as a bargaining instrument for obtaining favourable treatment to foreign private investment in the third world countries and for obtaining easy entry for the export of goods and service from the west and for the promotion of economic policies beneficial to the donors of aid. In the words of an Oxford economist, representative of " left wing "critic, Keith Griffin, " If any thing aid may have retarded development by leading to lower domestic savings by distorting the composition of investment and thereby raising the capital-out-put ratio by frustrating the emergence of an indigenous entrepreneurial class and by inhibiting institutional reform" .According to Prof. Peter Bauer representative of the right wing school opines that aid is neither a necessary nor a sufficient condition for development. It is not necessary because several developing countries such as, Hong Kong, Singapore, Malaysia, Thailand, Nigeria and Mexico made rapid progress between last quarter of nineteenth century and the middle of the twentieth century without much aid. Aid is not a sufficient condition for development because many countries which have received substantial aid have made little progress. In the absence of other essential ingredients for development such as human skills, institutions and offers attitudes conducive to progress, aid is likely to be wasted. It encourages mis allocations of resources, weakens domestic savings efforts and allows recipient government to indulge their selfish motive for ostentatious projects.

However it is observed that the above stated views regarding the role of foreign aid may be true in the case of certain countries and may not be so in the case of others. It may, therefore be observed that geographical conditions, the level of socio-economic development, the political policies of the ruling elite, the attitude of the people towards development, and bureaucratic efficiency and level of technological advancement are some of the conditions in which foreign aid has to function. It is needless to say that these factors differ from country to country and, hence, the role and achievement of foreign aid would differ from country to country.

The Chapter Foreign Aid to India is a comprehensive one. It covers the amount of aid flown to India during the planning period and the amount actually utilised. The share of aid in total plan outlay in total investment, plan-wise (1951-1996) was calculated. The ratio of aid to total imports (1974-1996) were calculated The purpose-wise distribution of foreign aid by the Government to various sectors during the planning era is also incorporated. In the context of developing countries , the study noted the changing pattern of aid in the form of an increase in the concessional component of aid.

The present study attempts to analyze, the impact of aid on the Indian economy. The Study covers for the period 1963-94. The availability of the data on all variables required in the study was from 1963 onwards. Data on aid were available plan-wise only from 1950 to 1963. The non-availability of year-wise data prior to 1963 is the reason for the analysis to begin from the year 1963.

The study made use of trend analysis to quantify the growth rates of variables used in the study decade-wise .Secondly, from the above stated review studies, a few equations were estimated using simple linear regression method in the Indian context for the period, 1963-1994 and are discussed below. Finally a comparative study for a period, 1980-90, of India, South Korea, and Colombia was done to assess the impact of aid on Economic Growth, Savings, Investment and other variables.

The extent of aid to the third world countries increased tremendously due to the increased need for industrialisation. The combined share of DAC countries and multilateral agencies mainly financed by them increased to 85 per cent in 1986 The non-concessional flows are increased till 1984 then it started declining. In the wake of development, these countries sought for concessional aid rather than non-concessional aid. The lending of the financial resources to low income countries were gradually increased. The disbursements to the middle income countries is more when compared to low income countries. The share of private creditors is more in the case of middle income countries in total disbursements. Both public and private lending goes in large quantity to the middle income countries. The low income country's share in the public as well as private financing is very low. The technological assistance given to developing countries by ODA increased in 90s. The share of aid by DAC countries declined in recent years due to their budgetary problems. The pattern of aid is also changing in recent times. Many bilateral donors have shifted their aid programme away from loans and 1994 onwards all their ODA in the form grants. One reason for the increasing share of grants has been the raising expenditures reported by DAC members on emergency and humanitarian aid and refugee relief. In the case of India till the annual plan (1966-69), the foreign aid share in the total plan outlay was more. But from 68-69 onwards its share started declining. The share of foreign aid in total investment was high till the annual plans and later it declined. Growth rates in the variables used in the study over a period 1963-64 was found out. This can help in understanding the historical development, the variables which are used in the study viz., gross aid, net aid, GNP, savings, GDCF, exports, population and labour force over a period of time. Then using the data relating to Indian economy, a few of the relationships between aid, savings, growth rates of GNP, Investment were estimated using OLS method for the period 1963 to 1994.

The relationship between GNP and savings are tested and the results shows that savings as a significant impact on GNP. The relationship among GNP, savings and gross aid were tested and the results shows that the coefficient of gross aid is negative though insignificant. The savings coefficient is significant. The impact of savings, gross aid, private investment on GNP also tested. This equation has good R^2 of 0.96 and the coefficient of gross aid is significant. The relationship among savings, net aid and GNP were tested and here again savings coefficient is significant. The impact of net aid on GNP was positive . The impact of savings, net aid, population on GNP were tested. The goodness of fit for this equation is 0.99. Here also the savings coefficient is insignificant.

Net aid has a negative impact on GNP because it was diverted to less productive channels. The association of savings, net aid, exports on GNP were tested. The R^2 for this equation is 0.95. Here savings, net aid, export all contribute positively to the growth of GNP. The net aid has a significant effect on GNP. The impact of savings, gross aid , GDCF on GNP were tested. Here again, savings and gross aid coefficients are significant . The R^2 for this equation is 0.97. All the variables, savings, gross aid, net aid, GDCF, Exports, Private investment, Population are used as explanatory variables on GNP. The good of fit is 0.99. But the most of the variables have insignificant coefficients.

The present study also estimated the investment, aid, savings relationship using time series data from 1962 to 1994 in Indian context. The analysis reflects the extent to which an inflow of foreign aid contributes to economic growth.
The impact of savings, gross aid on investment is analysed. The saving ratio has significant positive impact on investment ratio and in the case of savings has a significant impact on net aid. The relationship between gross aid and investment ratio has a significant positive impact.

It is a known fact that India was a Britisher's colony and it got independence in 1947, just like India Korea was Japanese colony and got independence in 1948 and Colombia was Spanish colony and it got independence much prior to India and Korea i.e., 1819. The three countries agricultural dependent countries in the beginning but later, they transformed their economies into industrialised countries. All the three countries opted for foreign aid in order to develop their economies. They were poor in capital during the period of independence. These countries were exporting primary commodities during 1950s.

In India the net inflow of aid peaked during the early 1960s. Gross Domestic Savings rose from around 13 percent of GDP in the early ninety sixties to around 21 percent in the late 1980s. The ratio of Gross aid .utilisation to domestic investment has steadily fallen from 11 percent in 1975-76 to only 3.7 percent in 1985-86. India's ability to use aid effectively is much better than that of many countries and has improved considerably over the years. South Korea received large amount of aid in the 1950s and 1960s, which then declined sharply. Its economy has grown rapidly and its domestic savings rose from 6.9 percent of GDP in 1953 -55 to 18.7 percent in 1974-76. Its external trade deficit remained roughly constant, at around 9 percent of GDP, while aid's share in financing it fell from 60 percent to 17 percent. The World Bank has been the principal international agency functioning in Colombia since the early 1950s, providing the country with $ 4.6 billion in resources over the past thirty-five years, versus the IDB's $ 2.6 billion, and USAID's $ 1.6 billion for the same period. The aggregate net resource flows in India during 1970 was $ 757 millions in 1992 it was $ 4460 millions. In South Korea the aggregate net resource flows was $ 456 millions in 1970, $ 5899 millions in 1992. In Colombia the aggregate net resource flows was $ 179 millions in 1970 and in 1992 it was $ -78 million.

India adopted import substitution policy during 50s and 60s and it shifted to outward looking strategy in early 90s by liberalising the external sector. Just like India Korea also adopted during 1950-60 and it also used all kinds of restrictive measures to give protection to its industry during this period. During the Park's regime from 1960 South Korea Government shifted to outward-looking strategy. Colombia used to depend upon coffee exports but during early 70s it adopted export outward looking strategy.

During 1980 the total net disbursements of ODA to Colombia was $90 million, 1985 $ 62 million and in 1991 it was $123 million. In the case of Korea the total ODA in 1980 $139 million in 1985 $ -9 million and it was $54 million. Regarding India the total ODA during 1980 $ 2146 millions it reduced during 1985 i.e., $1592 million and started increasing in 1991 i.e., $ 2747 millions. Colombia got major share in ODA next it is India. ODA as a percentage of GDP, Colombia was getting major share of 2.2 pc in 1980 and 1.9% in 1985 , 6.6% in 1991. Whereas the ODA share in GNP is very meager and also in Indian case.

The net flows on long term debt is higher in the case of South Korea and India rather than Colombia i.e., during 1970 the net flows on long term debt in Korea is $271 million increased to $2924 million in 1992. In India the same is $ 594 million in 1970 and rose to $3393 million in 1992. But as seen from the data regarding Colombia the flows is $115 million in 1970 and during 1992 it was $ 808 millions only. Colombia suffered with severe debt problem yet It is the only country which faced this situation among the Latin American countries. That is the reason why Colombia has not opted for more net flows to finance debt. The official grants are more in the case of India rather than South Korea and Colombia. Colombia opted for more net FDI than South Korea. The Govt. of Korea had objection in allowing FDI was due to its reluctance to share the ownership and control of Korean enterprise with foreign, especially Japanese enterprises.

The GDP at constant prices in case of India, South Korea and Colombia during 1970 was 5.8 percent, 8.8 percent and 6.6 percent respectively. During 1995 it increased to 7.3 percent for India, 8.9 percent in South Korea, and 5.4 percent in case of Colombia. The GNP per capita in $ US in case of India, South Korea and Colombia was $ 350,$ 5400 and $1260 respectively. The investment rate in

India, South Korea and Colombia during 1970 was 17.1 percent, 25.4 percent 20.3 percent respectively. In 1995 it was 26.2 percent,. 37.1 percent and *22* 6 percent respectively. The average annual inflation rate during 1980-90, in case of India was 7.9 percent, South Korea 5.1 percent, Colombia was 24.8 percent.

The net disbursements of official development assistance (as a percentage of GNP) in case of three countries i.e., India, South Korea, Colombia during 1980 was 1.3 percent, 0.2 percent and 2.2 percent respectively. During 1991 it was 1.1 percent for India, zero percent for South Korea and 6.6 percent in case of Colombia. The export of goods and services as a percentage of GDP in 1980 in case of India, South Korea, Colombia was 6.5 percent, 35 percent and 16 percent respectively. During 1995 the export of goods and services as a percentage of GDP in 1980 was 11.2 percent for India, 32.8 percent for South Korea and 17.1 percent for Colombia.

The import of goods and services as a percentage of GDP during 1980 was 9.8 percent for India, 41 percent for South Korea and 16.3 percent for Colombia. During 1995 the same was 13.7 percent for India, 34.2 percent for South Korea and 20.1 percent for Colombia. During 1980, the population in millions with regard to India, South Korea and Colombia were 849.5 millions, 42.8 millions and 32.3 millions respectively.

The share of India's exports and Imports to South Korea and Colombia are also incorporated in this study. Regarding the export share, the South Korea is importing 1.01 percent in 1991 and it increased to 1.39 percent in 1991-92. But during 1992-93 the share of exports to this country started declining. In 1995-96 it again increased 1.36 percent. The share of India's imports from South Korea during 1991 is 1.50 percent, during 1993-94 it is 2.42 percent which increased a lot, but during 1995-96 it is 2.23 percent. India's share in imports are more than exports to South Korea. India's exports to Colombia are very negligible. During 1991 Colombia is importing 0.01 percent, it started raising in 1995-96 i.e., 0.06 percent. Colombia exported 0.093 percent in 1990-91 in total India's imports and during 1994-95 it increased to 0.174 percent, but during 1995-96 it was 0.029 percent.

For comparative study few equations were estimated by using the variables such as GNP (Y), Savings, aid, private investment, GDCF, Exports and Labour Force It reveals that as per the GNP-Saving-Aid relationship is concerned in the context of India and South Korea and the results are satisfactory in terms of R2 values. But Colombia, the values of R2 and the t-ratios were too low.

In second instance the relationship among GNP, GDCF and Aid were examined In Korea GDCF has an impact on GNP and high R2 of 0.97, but aid has a negative impact on GNP. The equations for India seems to be normal and again for Colombia, there seems to be insignificant relationship between these variables. Regarding the relationship between GNP, Savings, Aid, and Pvt. Investment, the results are quite satisfactory in the context of both India and Korea where as for Colombia, the goodness of fit is poor. The impact of Labour force reveals an insignificant coefficient for India and Colombia, whereas it has a significant negative impact in Korea's context.

The comparative study of India, South Korea and Colombia revealed that aid had a positive impact in India. As far as the South Korea is concerned it reaffirmed that it developed without much aid. The results of Colombia are not satisfactory. The Colombian economy used more aid for debt servicing payments rather than for developmental activities. The South Korean economy developed very fast due to proper implementation of policies such as adopting outward looking strategies, land reforms and market mechanisms played a very important role in its economic development. India's development is lagging behind due to the inappropriate implementation of policies. The Colombian economy developed due to the exports of Coffee and Cocaine.

Conclusions:

Some of the broad conclusions which emerged from the study are as follows:

1. The share of aid in total plan outlay and investment has been gradually declining in India from Fourth Plan onwards. During the annual plans the share in plan outlay and total investment was 47.48 percent it declined to 19.29 in case of plan outlay and 13.45 pc in case of total investment in India.

2. As far as the aid to developing countries is concerned, the composition of aid is changing from 80s onwards in the form of concessional aid rather than non-concessional aid given on humanitarian grounds. Developing countries are receiving grants instead of loans from DAC countries which is leading to the budgetary problems in DAC countries (donor countries). The share of private creditors is more in the case of middle income countries in total disbursement i.e., in 1975 the share of private creditor to the middle income countries is $ billions 28.2 which increased to $ billions 43.4 in 1986. Regarding the low income countries, the share of private creditors is $ billion 1.6 and 10 in the same years. Both public and private lending goes in large quantity to the middle income countries. The low income country's share in the public as well as private financing is very low.

3. The South Korean economy has developed faster through effective implementation of Plans and export promotion strategies, stable Government. The dependence of South Korea on aid during recent years was low.

4. Colombia received large quantities of aid among the Latin American countries but It used it for repayment of debt rather than for developmental purpose.

5. The theoretical proposition is that aid will help an increasing output and employment income savings and exports. However, the impact of aid varies depending on its effective utilisation. The precise linkages of aid and its effects (positive as well as negative) are not yet specifically traced both in the cross country as well as country specific studies. Aid helped a lot in the case of India. The Aid in the form of food grains under PL 480 from US came to India to meet domestic shortage. We started basic and key industries in the second five year plan and we got the help from UK, Germany, Russia for our Iron and Steel Plants. The technical aid also helped in our Green revolution programme.

6. The impact of gross and net aid on GNP was estimated with other variables such as savings, exports, private investment, GDCF as explanatory variables. Variance of the same relations are estimated and reported. The overall results are satisfactory tested with the goodness of fit ranging from 0.99 to 0.94. Most of the variables had statistically significant t-ratios.

7. The comparative study of India, South Korea and Colombia revealed that the aid had a positive impact in India. As for as the South Korea is concerned it reaffirmed that it developed without much aid. In the case of Colombia the

aid did not have any significant positive impact on Colombian economic development as the large part of aid has been used for repayment of debt.

On the basis of findings of the present study, the following are suggested

Since a positive correlation between foreign and savings and also between aid and GNP is found in the study measures can be taken to encourage the inflow of foreign aid to promote the savings rate and GNP further in case of India. A positive relationship is found in South Korea also between aid and GNP in 80s However in case of South Korea, it is also found that the export promotion policies led to high growth rate of exports with larger share of manufacture goods while expansion of employment opportunities in this country. In the light of the experience of South Korea, it is also suggested that India can take necessary steps to promote exports with employment potential. It is also found from the study that in the case of Colombia the aid did not have any significant positive impact on Colombian economic development as the large part of aid has been used for repayment of debt. Therefore, the experience of Colombia shows that the success of aid depends upon how effectively aid is used for productive purposes. However it is suggested that the borrowed aid should be utilised effectively for the productive purposes only for which it is obtained. Then only aid can have a positive effect on economic development.

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GLOSSARY

Authorisation	Refers to the total quantum of aid sanctioned by the donor country to a recipient country during a particular period.
Absorptive capacity	the ability of a country effectively to absorb foreign private or public financial assistance - i.e., to use the funds in a productive manner.
Balance of Payments	A systematic record of the economic transactions between a nation's residents and non-residents during given period usually one calendar of fiscal year.
Bilateral Assistance	The International transfer of public funds in the form of loans or grants directly from one Government to another
Capital formation, Gross and Net	Gross Capital formation includes Gross fixed capital formation and change in stocks. Net Capital formation is Gross Capital formation is Gross capital formation less consumption of fixed capital.
Concessional Assistance	Refers to flows which qualify as official development assistance (ODA) i.e., grants or loans undertaken by the official sector, with promotion of economic development and welfare as main objectives and at concessional financial terms.
Government Savings	It is the saving of the sub-sector Government Administration is defined as the excess of current receipts over current expenditure.
Gross Aid	It is the total external aid received during a particular period by the recipient country.
Gross National Product	It is the total domestic and foreign output claimed by residents.
Hard Loans	Refers to those given at market rates of interest.

Indirect Tax	It is taxes levied on goods purchased by the consumer (and exported by the producer) for which the tax payer's liability varies in proportion to the quantity of particular goods purchased or **sold.**
Industrial Resolution	Emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the state must play a progressively active role in the development of Industries
Interest	It is the payment (or price) for the use of borrowed funds.
Interest Rate	It is the amount that a borrower must pay a lender over and above the total amount borrowed expressed as a percentage of the total amount of funds borrowed
Investment	It is the part of national income or expenditure devoted to the production of capital goods over a given period of time
Loans	It is the transfer of funds from one economic entity to another (example Government to Government individual, Bank to individual, etc.) which must be repaid with interest over a prescribed period of time.
Marshall Plan	It is also known as the European recovery programme, George. C. Marshall, (secretary of state) who received the 1953 Nobel prize for his role in developing peace programme, European recovery programme (ERP) helped to restore the economies of Europe after the devastation of World War II.
Multilateral Assistance	It is given by International creditors like World Bank, Regional Development Banks and other multilateral and inter-Governmental agencies.
Net inflow of Aid	It is the Gross Aid less interest and less amortisation payments.
Non-concessional Aid	It includes grants from private agencies and transactions at commercial terms.
Percapita income	It is the total GNP of a country divided by the total population.
PL Assistance	It is the sale of surplus products for local currency payments (US).

Private Foreign investment	It is the investment of private foreign funds in the economy of a developing nation
Savings	It is the portion of disposable income not spent on consumption by house hold plus profits retained by firms.
Self-reliance	In particular aspects such as food production man power and skills etc.
Soft Loans	These are given at concessionery or low rates of interest.
Third World	Developing countries of Asia, Africa the Middle East and Latin America.
Tied Aid	Aid is said to be tied to purchases from the assisting countries.
Utilisation	It is defined as the part of the total authorised external assistance which is actually utilised by a donee during a particular period.