

COMMERCE OVER CONSCIENCE:
CANADA'S FOREIGN AID PROGRAMME IN THE 1980s

by

DAVID WILLIAM GILLIES

Submitted to the Faculty of Graduate Studies
and Research in Partial Fulfillment of
the Requirements for the Degree of
MASTER OF ARTS IN POLITICAL SCIENCE

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Department of Political Science
McGill University
Montreal, Canada

June 1986

ABSTRACT

This study is an examination of recent changes in the organisation and activity of Canada's foreign aid programme. Three conceptually distinct categories form the theoretical framework of the study: (a) contending approaches to the study of international relations; (b) contending conceptions of economic growth and development; and (c) contending approaches to the aid policy-making process. The study examines the multiple objectives underlying Canada's aid programme, develops and interprets a series of "aid quality" indices, and undertakes a detailed examination of the aid policy process. Emphasis is placed on tracing the specific combination of domestic "push" and international "pull" factors which have pressured Ottawa into initiatives promoting a closer linkage of the aid and trade facets of government activity. Attention is also drawn to the impact of these initiatives on the developmental objectives of the programme.

The principal finding of the study is that while Canada's aid programme has until recently been able to maintain a precarious balance between the opposing forces of philanthropy and self-interest, there are now unmistakable signs of a deliberate effort to tilt the programme in a more commercial direction. In this trend, the single case of Canada mirrors a more general pattern towards an increasingly commercial orientation in most donor aid programmes.

RESUME

Notre mémoire analyse les changements récents survenus au sein de l'organisation et du programme d'activités de l'aide canadienne. Trois catégories conceptuelles distinctes forment l'encadrement théorique: (a) les différentes analyses des relations internationales; (b) les différentes approches à la croissance économique et au développement; et (c) les différentes approches au processus de formulation des politiques d'aide. L'étude examine les objectifs multiples du programme d'aide canadienne, tout en développant et en interprétant une série de critères d'évaluation. De plus, elle aborde l'examen détaillé de la formulation des politiques d'assistance. Une particulière importance est accordée aux rapports entre intérêts domestiques et besoins externes qui poussent le Canada à lier étroitement l'assistance et le commerce au sein du programme d'aide. L'analyse de l'impact de cette nouvelle orientation sur les objectifs de développement sera privilégiée.

Nous constatons tout d'abord que, jusqu'à maintenant, le programme d'aide canadienne a pu maintenir un équilibre dans l'affrontement des objectifs philanthropiques et des intérêts domestiques. Il existe par contre des indices qui démontrent clairement que cet équilibre est en voie de disparaître au profit de la tendance commerciale. L'exemple canadien reflète, ici, une tendance plus générale à la commercialisation de la plupart des programmes d'aide.

ACKNOWLEDGEMENTS

The completion of this study owes a great deal to the encouragement and guidance of a number of individuals. My principal debt is to my supervisor, Professor Baldev Raj Nayar, whose professional dedication and rigorous standards have been a source of inspiration throughout my graduate studies at McGill. Individual chapters of the study were read by Professor Kari Polanyi-Levitt of the Department of Economics at McGill University, and by Mr Douglas Williams of the North-South Institute, Ottawa.

The study has relied heavily on personal interviews with government officials, academics and independent research workers and I would like to record my gratitude to the following individuals who gave freely of their time and knowledge: Miss Marilyn Cayer, Mr Julian Payne and Mr Richard Gold at CIDA; Mr Lindsey Gordon at Export Development Corporation; Mr Peter Sutherland at External Affairs; Mr Robert Miller at the Parliamentary Centre for Foreign Affairs and Foreign Trade, Ottawa; Professor Linda Freeman of the Department of Political Science, Carleton University; Mr Roger Young of the North-South Institute; and Mr Syed Rahman of the Canadian Conference Board.

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ABBREVIATIONS USED IN THE TEXT

BP	-----	Bureaucratic Politics
CCIC	-----	Canadian Council on International Cooperation
CIDA	-----	Canadian International Development Agency
CLC	-----	Canadian Labour Congress
DAC	-----	Development Assistance Committee
DEA	-----	Department of External Affairs
DIT&C	-----	Department of Industry, Trade and Commerce
EDC	-----	Export Development Corporation
HEPC	-----	Hydro Electric Power Corporation (India)
IDA	-----	International Development Association (World Bank)
IDRC	-----	International Development Research Centre
LDCs	-----	Less Developed Countries
LICs	-----	Low Income Countries
LLDCs	-----	Least Developed Countries
NGOs	-----	Non-Governmental Organisations
NICs	-----	Newly Industrialising Countries
OECD	-----	Organisation for Economic Cooperation and Development
ODA	-----	Official Development Assistance
PCIAC	-----	Petro-Canada International
SCEAND	-----	Standing Committee on External Affairs and National Defence
US AID	-----	United States Agency for International Development

CHAPTER I

THE PROBLEM FOR INVESTIGATION

Although foreign aid finances only a very minor part of total investment in the Third World, it "continues to receive a disproportionate share of attention from policy makers...in the developed world." (Young, 1984: 28) While its direct contribution to development is increasingly recognised as being slight (Dolan, 1980), foreign aid remains a hotly debated issue, and one prone to attack from all quarters. This continuing fascination with aid stems from the sweeping claims often made on its behalf as well as from the perplexing confusion of objectives grafted onto the typical aid agency. Most aid agencies are expected to be all things to all men. They are expected to balance the advancement of domestic interests with the cause of global solidarity and philanthropy; to promote development abroad while creating jobs at home; to achieve much with very little.

For the analyst, aid programmes have been sensitive indicators of the general international political and economic preoccupations among developed nations, bearing witness to any general shifts in emphasis and fashion, from, for example, Cold War perspectives all the way to Basic Needs. In the 1980s, foreign aid faces a crisis of identity and confidence. The USA, in particular, has been in the forefront of initiatives to promote private enterprise in the LDCs via the aid programme, and has cut back on its commitments to the International Development Association -- the soft loan window of the

World Bank. Other nations, such as the Nordic states and Canada, are now following suit.

A reconsideration of the motives and achievements of foreign aid is therefore timely, given a growing perception of "aid fatigue" among major donors, such as the USA, and disillusionment with its utility as an instrument of change. We are, moreover, witnessing a shift to a new mood of commercialism in the donor community and an effort to ensure that domestic benefits are derived from the aid programme. This trend has developed against the backdrop of a recent economic recession in the West and growing competition among the donors themselves. The present study, based as it is on a single donor -- Canada -- is designed in part to record and assess the significance of this shift towards the commercialisation of the aid business.

What then is foreign aid and whom does it benefit? Advocates of aid hail it as the catalyst of development, while critics berate it as either the deliberate obstacle to political and economic emancipation in the Third World or as a pitifully naive and inadequate example of liberal 'do-gooding.' In this latter view, aid is little more than today's version of the missionary impulse, designed to relieve the 'wretched of the earth' and salve the collective conscience of the comfortable and complacent in the western world. To its practitioners, however, the management and implementation of aid projects is a sober and complex enterprise, requiring the combined skills of economics, administration and, not infrequently, diplomacy.

In the modern post-war era, foreign aid has emerged as an institutionalised instrument of foreign policy among the major western nations. Its use has also been an important adjunct to the

long-term objectives of the Soviet Union and China in the Third World. More recently, some LDC regional powers -- such as Saudi Arabia and India -- have also extended aid in pursuit of foreign policy objectives. A common theme among this otherwise uncommon group has been the rhetorical projection of a view that aid is disbursed principally for self-effacing purposes of philanthropy and global solidarity. On occasion, self-interested motives, such as the use of aid for creating economic benefits for the donor or the promotion of strategic interests may be conceded, but, even here, politicians and administrators alike attempt to reconcile self-interest and philanthropy by extolling the supposed virtues of "mutual interest."

This study examines the motives of aid donors and then explores the impact of motives upon the substance or "shape" of donor aid programmes. It also seeks to address the question of whether the motives of self-interest and philanthropy are mutually complementary as often claimed, or mutually exclusive, leading to a complex trade-off in aid priorities and objectives? Is the "aid relationship" between donor and recipient founded upon a partnership as the Pearson Report (1969) urged, or is the relationship more often played out in a setting in which the dominant donor imposes decisions and controls upon the weaker and dominated recipient?

Within the discipline of political science, foreign aid represents an area of academic interest at the interface of foreign policy and international relations. It serves as a potent instrument of donor foreign policies and illustrates a facet of systemic interaction among the nations of the North and South. The patterns that have emerged in the aid field should be of some relevance to a wide corpus of interests within the discipline. Among students of

development, empirical data on the impact of aid has been used to support viewpoints at either end of the political spectrum: among those who see aid as the catalyst of development and those who regard it as an instrument in the perpetuation of dependency. To the specialist in international relations, aid may highlight the relationship between power in a hierarchical international order and its use as an instrument of economic reward and punishment to influence the behavior of recipient states and maintain desired patterns of alignment. For those interested in state behaviour, or in the domestic politics of individual nations, the genesis of aid policies will be of interest for the light it sheds on the mechanics of policy-making or in assessing the relative impact of external (systemic) factors and internal (role, societal and governmental) variables on decision-making. (Singer, 1961)

The broad purpose of this study is to undertake an examination of foreign aid^{<1>} in the political and economic relations between developed and developing countries. The study focusses on the motives and practices of the donors and it uses Canada, as an affluent, middle-tier developed nation, as a specific case study of North-South relations in the context of foreign aid. The dependent variable in this study is the pattern or "shape" of the Canadian foreign aid programme.^{<2>}

The independent variables, which are examined for their capacity to 'explain' the shape of the Canadian programme, are: (a) philanthropic and developmental motives, reflecting both the impulses of humanitarianism and the imperatives of cooperation and "enlightened internationalism"; and (b) motives based upon self-interest, reflecting efforts of donor governments to maximise economic and/or political benefits from the disbursement of capital,

technology and services via the aid programme.

The specific case of the Canadian aid programme is framed within a wider theoretical debate. The policies of a single donor are used to examine the positions and assumptions of two contending and markedly different approaches or perspectives on international relations, namely, "state-centrism" and "interdependence."³ Of necessity, in order to assess the assumptions of each school, considerable attention will be directed at the motives of the donor in extending aid to the developing world. The study will attempt to disentangle the often deliberate obfuscation of the underlying reality by the rhetorical claims of politicians and civil servants. To do so, an important distinction will be drawn at the outset between "professed" philanthropic motives and self-interested or "instrumental" motives as the basis for discerning the primary focus of donor interests and untangling the frequently complex trade-off among aid-giving objectives.⁴ The study will proceed with the logic that, to the extent that Canada can be shown to pursue its "professed" goals of global welfare and Third World development, its foreign aid policy and practice support the views of the interdependence school, whereas, if it is demonstrated that the dominant objective of the Canadian aid programme is the pursuit of self-interest, then the position of the state-centric or Realist approach is supported.

While the above "macro" framework of the debate between the two dominant approaches to international relations does provide the wider setting for this study, it is pitched at a level of generality that does not immediately lend itself as a basis for an examination of all the factors influencing the shape of the Canadian aid programme. A fuller interpretation is, however, possible by

integrating into this larger debate the insights of a number of other approaches to the phenomenon of foreign aid: these are the "Diffusionist" school; the "Radical" school (incorporating elements of Dependency theory and a Marxist 'dominant class' perspective); the Bureaucratic Politics model; and the Organisational Constraints approach. The application of these different lenses, each with its own set of premises, will, it is hoped, provide a fuller assessment of the Canadian aid programme and thus, in turn, contribute to a more considered discussion of the utility of the two wider frameworks.

The principal hypothesis of this study is that domestic pressures within donor states are primarily responsible for determining the shape of aid programmes. In the current Canadian context, economic recession, high levels of unemployment and declining export markets, have shaped a climate of opinion in Ottawa that stresses the imperative of securing domestic benefits from foreign aid. The net result of this commercialisation of the aid programme has been the progressive marginalisation of humanitarian and developmental goals. A secondary and linked hypothesis is that a "corporate ideology" exists in Ottawa and that planners involved in the aid programme have been especially responsive to the needs of the business sector in an effort to promote Canadian exports in Third World markets.

In terms of the central concepts employed here, the study makes, firstly, a theoretical distinction between "professed" and "instrumental" motives as the basis for determining the principal thrust of the foreign aid programme, namely, whether domestic benefit and self-interest, or philanthropy and development predominate. Secondly, concerned as it is with foreign aid to less

developed countries, the study necessarily examines the concept of development. However, in view of the absence of a consensus definition, no rigorous statement is possible that would objectively satisfy the markedly different conceptions of the many different interest groups concerned with the aid programme. Hence, there is no single standard from which to gauge the "quality" of Canada's programme. What is, however, possible is to measure the relative priority given to a variety of motives underlying the aid programme and to chart any changes in emphasis through time. Only then will it be possible to assess the extent to which Canada lives up to its stated objective of assisting the development of the Third World. Towards this end, specific "aid quality" criteria are developed as indicators to 'measure' the developmental and commercial components of the Canadian programme. It needs to be borne in mind that this research is based on a single case study of North-South relations in the context of aid. However, while the conclusions arrived at are, properly, applicable to Canada alone, they may illustrate patterns and policies common to other donors.

The Organisation of the Study

The broad organising framework of the study is to proceed from theory to policy and practice, and then to reconsider initial themes in the light of empirical material gathered in the main body of the thesis. Hence, Chapter II is intended to situate the study of foreign aid in a variety of theoretical frameworks. In turn, empirical data on Canada's programme will test the utility of theoretical models, such as state-centrism and interdependence, the diffusionist and radical perspectives, and various explanations of

the policy-making process. Chapter III examines the motives underlying all donor aid programmes as a prelude to a more detailed treatment of Canada's programme. Using the markedly different motives and practices of the US and Scandinavian programmes as reference points, this chapter illustrates the relationship between the theory and practice of aid giving. Chapter IV, by contrast, is highly factual, and is intended to provide the essential details of Canada's programme. A series of indices are developed as the basis from which to arrive at a credit-debit ledger of the "quality" of Canadian aid. A comparative perspective is used to test the intuitive impression of a programme riddled with multiple objectives and an uneasy balance between the motives of philanthropy and self-interest.

Chapter V makes a more detailed examination of the aid policy-making process; it also looks at the applicability of a number of different theoretical frameworks in the creation of aid policies. It is shown that a combination of Bureaucratic Politics, organisational constraints within CIDA, and neo-Marxist explanations of a "corporate ideology" in Ottawa, offers some insight into the complexities of aid policy-making. To the extent that this chapter emphasises the "bias to business" in aid policies, it reinforces the arguments of Chapter VI, which traces the specific combination of domestic and international economic factors that has pressured Ottawa into policies that are currently upgrading the commercial element of the aid programme. Finally, Chapter VII forms an extended reconsideration of some of the themes introduced in the earlier portions of the study. In the light of the evidence presented, the policies and practices of the Canadian foreign aid programme underline a state-centric and realist conception of international

politics. The judgements on the aid programme are considered in the context of Canada's wider foreign policy preoccupations and its attitude to North-South issues in general. In conclusion, it is emphasised that the recent upgrading of commercial objectives in the aid programme mirrors a marked parochialism in Canada's international behaviour and a tougher Canadian attitude to North-South issues.

FOOTNOTES

- <1> Definitions of foreign aid abound. For the purposes of this study, aid will refer only "to those parts of capital inflow, which normal market incentives do not provide." It consists of long-term loans, usually over a ten year period, at low rates of annual amortisation repayable in foreign currency; grants or soft-loans, including loans with a long grace period repayable in local currency. It also includes the sale of surplus products, such as food aid, as well as technical assistance. Paul Rosenstein-Rodan, in Jagdish Bhagwati, Foreign Aid (Harmondsworth, Middlesex, England: Penguin Books, 1970).
- <2> "Shape" here refers to (a) rate of growth of the aid programme; (b) the balance between bilateral and multilateral aid; (c) the forms of assistance -- commodities, finance and technical services; and (d) volume of aid given. See Janet G. Hankin, Growth without Guidance: The Development of the Swedish Foreign Aid Programme 1960-1968. (Unpublished Ph.D Dissertation, McGill University, 1979). To these criteria I have added (e) proportion of tied-aid, and (f) proportion of concessional aid.
- <3> The term paradigm should be approached cautiously since in the Kuhnian sense it is more applicable to the "hard sciences," while its use in the social sciences has often been inappropriate. See Thomas Kuhn, The Structure of Scientific Revolutions (Chicago: University of Chicago Press, 1962). See also Javier Elguea, "Paradigms and Scientific Revolutions in Development Studies," Development and Change, Vol.16, No. 2 (1985), pp. 213-233.
- <4> Robert Johansen, A Case Study Of The Impact Of US Foreign Policy On The Prospects For World Order Reform (Princeton: Princeton University Press, 1972). See also his larger work, The National Interest And The Human Interest (Princeton: Princeton University Press, 1980).

CHAPTER II

THEORETICAL APPROACHES TO THE STUDY OF FOREIGN AID

This theoretical chapter looks at foreign aid from three conceptually distinct perspectives. At the broadest level, it situates the aid phenomenon within a wider debate on approaches to the study of international relations. At a secondary level of interest, this chapter examines the arguments for and against the utility of foreign aid. At a third level of greater specificity, it explores the aid policy-making process.

1. State-Centrism and Interdependence

The study of international politics has been approached from two markedly different traditions, each with a particular "vision" of the human condition and the nature of state to state interactions. In broad sweep, the two perspectives have been referred to as Realism and Idealism. While Realism has at most times represented the "dominant paradigm," Idealism has in the twentieth century (during the inter-war period and currently) formed an important and increasingly vigorous current within the discipline.

The prevailing mood and facts of international politics in any given period are usually mirrored in academic circles by a dominant paradigm that seeks, on the basis of theoretical construction, to describe, explain and predict the nature of the myriad interactions among states. As the objective conditions of international relations change, the "dominant paradigm" may come under challenge from new approaches of allegedly greater explanatory appeal in their

analysis of altered conditions. Thus, in the wake of the First World War, Idealism surfaced as a rejection of "balance of power" politics that had allegedly been responsible for that global debacle. Although the Idealist conception of a global community and global institutions was roundly attacked by E.H. Carr, during the 1930s, it was not until the aftermath of the Second World War that Realism was re-established as the dominant paradigm.<1> During the last two decades, however, the Realist position has once again been challenged by what has been termed the "interdependence" school -- an approach that has its philosophical roots in an Idealist and optimistic conception of human possibilities and international society. In short, the former consensus within the field has broken down and the two approaches contend as rival modes of analysis.

Although the term "Political Realism" is commonly attributed to Hans Morgenthau, the tradition of which he has been the most influential modern exponent stretches back over two thousand years, at least to the time of Thucydides, and can be found in the writings of both Eastern and Western political theorists. Among the former, the Indian counsellor Kautilya developed a series of maxims for his "Prince", Chandragupta, during the third century B.C.<2> In the West, the thread of Realism runs from Machiavelli to balance of power theorists; to mercantilists of the early modern period such as Alexander Hamilton and Friedrich List; and on into the contemporary period in the writings of E.H. Carr and Hans Morgenthau.<3>

As an "ideal type", Realists of every complexion share three assumptions about the nature of political life.<4> The first assumption is that international affairs are essentially conflictual. The international arena is conceived of as an "anarchical society": a Hobbesian world without a "common power to

keep them all in awe."<5> Given this absence of a supra-national authority or a completely hegemonic power, states must help themselves by relying on "the means they can generate and the arrangements they can make for themselves."<6> In this view, world politics is sometimes compared to a state of war in which "anarchy is the rule: order, justice and morality are the exceptions."<7> For analysts of this persuasion, conflict is explained by the nature of the international system itself, or by what Kenneth Waltz has called the "third image" of international relations.<8>

The second premise of Realism is that the essence of social reality is the group. The characteristic feature of interaction among groups is competition, leading to what Ralf Dahrendorf has referred to as "conflict groups."<9> The social unit of the group expresses the tribal nature of homo sapiens as a species. The common expression of this tribal solidarity today is the nation-state, while nationalism is the most common expression of tribal loyalty.

The third assumption, and arguably the keystone of the Realist edifice, is "that the final arbiter of things political is power."<10> The primacy of this quest for power may, in turn, be the surface expression of deeper-rooted needs for security. As Thucydides put it, "men are motivated by honour, greed, and, above all, fear."<11> Whatever the underlying motives, Realists invariably assume that "statesmen think and act in terms of interest defined as power."<12> This preoccupation with self-interest, and the pursuit of power and wealth, is the "rational" response of states interacting in an anarchical society.

Other salient premises of Realism are: (a) states are the dominant actors (state-centrism), (b) hierarchies of issues exist, and (c) force is legitimate as an instrument of foreign policy. In

addition to state-centrism, another premise of importance to this study is the conception of foreign policy as the product of a unitary and rational actor.<13> In an anarchical setting in which power is the driving force of behavior, leaders will respond to the constraints and incentives imposed by the environment, and will carefully calculate the costs and benefits of different courses of action.

"Classical Realism" has in recent years been refined to such an extent that new terms such as "neo-Realism" and "Structural Realism" have sprung up in its place.<14> While the cardinal principles of power, interests and rationality persist, the new Realists now take greater account of economic issues and of the "structure" of the international system as determined by the distribution of capabilities and power of the major players.<15>

Despite these refinements, Realism as a mode of analysis has come under severe attack from a new generation of scholars who question its organising premises and its validity as a framework of analysis. One critic, Robert Keohane, questions Realism's contribution to "foreknowledge,"<16> and doubts its ability to solve puzzles and explain anomalies. Even more stringently, Keohane questions the extent to which Realism constitutes a rigorous scientific research programme in the sense used by Lakatos.<17> In particular, are the "auxiliary" hypotheses of Realism "progressive", that is, do they generate new facts or insights? On the basis of these demanding criteria, Keohane concludes that Realism constitutes neither a comprehensive theory nor a research programme. Put simply, there is an inconsistency and absence of rigour in the definitions employed which lead, in turn, to difficulties in the generation of empirically testable propositions. Power, for example,

remains a multi-faceted concept, difficult to define and still more difficult to measure. These weaknesses, in turn, reduce the predictive potential of Realism.<18>

Chief among the inventory of arguments against Realism is that tradition's preoccupation with power. Keohane, for example, denies the equation "that power is to politics what money is to the economist."<19> A second objection turns on Realism's focus on military force as the dominant element in a hierarchy of issues in which economic matters are relegated to a secondary position. Critics further complain that Realism is weak in the interpretation of issues outside the military sphere and that it is also incapable of establishing the exact linkages among issue-areas. Two criticisms apposite to this study are: (a) Realism's "vision" of a perpetually state-centric world and (b) the conception of the state as a monolithic and unified rational actor.<20> Perhaps, most serious of all is Realism's alleged inability to account for systemic change.

The challenge to Realism has come from what has been called the "interdependence" school which -- in response to a visible loosening of the bipolar international structure and its replacement by a more complex "polycentric" world -- has rejected what it perceives as the archaic conception of power politics.<21> The current salience of economic issues and "the mounting evidence of social interpenetration" indicate to the interdependence school that world politics may be undergoing a transitional phase at the onset of systemic change. In response to these developments an argument has been put forward for a new "world politics paradigm" and for a "new world order agenda".<22>

The essence of this interdependence approach is the direction of

scholarly attention to the emergence and maintenance of cooperative, or at least rule-guided, behaviour in the international system.<23> The accent on cooperation and the search for signs of a centripetal trend in the system are based upon a series of premises which can be summarised as follows:

1. There has been a quantitative increase in the number of "transaction flows" among actors in the system. This has led to an increased sensitivity and vulnerability of nation-states to external trends and events. The nation-state has become "permeable" in an interdependent world.
2. The importance of nation-states as the key players in the system has declined. Although interdependence has meant a closer connection between domestic and foreign policy, governments have a reduced latitude of choice in shaping domestic, economic and welfare programs. This is, in part, due to the inability of governments to control the activities of transnational actors (e.g. MNCs).
3. The growth and complexity of links among actors and among issue-areas, demand that the "rational egoism" of states be tempered by the recognition of mutual dependence and the need for cooperation in place of conflict.
4. The declining centrality of the nation-state has been paralleled by the emergence of non-state actors in setting the international agenda and shaping the outcomes of bargaining and conflict.
5. The above trends signify a new type of international politics called "complex interdependence" in which there is no permanent hierarchy of issues, and in which military power is less significant as an instrument of foreign policy.
6. These features of the system lead to the prediction that status hierarchy will decline as interdependence grows. The weak will attain more favourable outcomes while the strong will be less able to achieve their goals.
7. As communication and interaction among actors increase, so will mutual understanding and tolerance, leading, in turn, to a reduction in international conflict.<24>

In some earlier versions of the interdependence thesis, notably Functionalism, an optimism developed that the proliferation of inter-governmental organisations (IGOs) would lead in time to the

replacement of the nation-state by supra-national arrangements for the management of global issues.

Realists, for their part, have taken issue with much of the interdependence agenda and question the "sovereignty at bay" thesis. Two recent trends that lend support to a persistence of state-centrality are: (a) the ability on the part of some states to curb the parasitic tendencies of MNCs, and (b) the re-emergence of protectionism among Western states facing a recessionary economic climate, a trend that has also been reflected in the muted nature of the North-South dialogue. At its most extreme, some have used these developments to argue a return to a Mercantilist conception of world politics.<25>

Thus far, the debate between the two schools has been presented as something of a zero-sum game. The crudity of this divide simplifies, however, the complexity of today's world. As one scholar has pointed out, "the issue is not which paradigm dominates but in what areas each is an adequate conceptualisation of reality." (Sundelius, 1978: 187) Thus, while security issues are best explained in Realist terms it is, at face value, a reasonable assumption that welfare-oriented issues, such as international development and foreign aid, are better explained within the framework of "complex interdependence."

Before testing the validity of this assumption in relation to the policies of a single donor -- Canada -- it is useful to examine attempts that have been made to implement cooperative arrangements in the development field. For interdependence theorists, one of the clearest signals for the growth of cooperation in any given issue-area is the emergence of an international regime. One definition of this elusive animal is "a social institution around

which actor expectations converge." (Ruggie, 1983: 9) More specifically, Krasner (1982) has referred to the presence of a common set of rules, principles, values and norms in guiding actor behaviour as defining characteristics of regimes.

In the aid issue-area, Ruggie (1983: 435) has outlined the evidence for the existence of at least a "quasi-regime." It remains something less than a full regime for three reasons. Firstly, while certain norms, particularly concerning the quantity of aid -- 0.7% of GNP, for example -- are understood by donors, the response in most cases has been at the level of aspiration rather than commitment. Secondly, the various components of the would-be regime (i.e., norms, values and so on) remain completely unrelated. Thirdly, and of most importance to this study, while compliance mechanisms have evolved, they tend to be few in number and weak in effect. Compliance in the aid issue-area is based on little more than encouragement and persuasion. Would-be violators have little more to lose than the moral censure of their donor colleagues. The ineffectiveness of these compliance measures will become abundantly clear in the case-study of the mixed-credits war at the end of this study.

2. Theories of Economic Growth and Development: The Diffusionist Perspective and the Radical Perspective

The widening gap between the rich and poor countries has become a central issue of our time. (Pearson Report, 1969: 1)

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else....it is ideas, not vested interests, which are dangerous for good or evil. J.M.Keynes (in Streeten, 1985: 14)

a. The Diffusionist Perspective

Orthodox theories of economic growth^{<26>} have been optimistic about the prospects for growth in the Third World.(Spero,1983: 138) In the diffusion of capital, goods and services, aid was, and continues to be, seen as a critical variable in stimulating the take-off into self-sustaining growth.^{<27>} In this view, the obstacles to development are held to have a non-market origin such as inadequate resource endowment, a population base too small or too rapidly growing, misguided state-planning and so on. The principal obstacles, however, are held to be weaknesses in factors of production, especially capital and labour. The remedies to these constraints involve the expansion of international trade coupled with the inflow of foreign investment and foreign aid to the LDCs. Of these variables, trade is seen as the key component acting as the engine of growth.(Spero,1983: 144-145) As global trade expands, specialisation according to comparative advantage is both inevitable and desirable since it increases the income of all nations. Specialisation according to the resources naturally endowed to a country is, in the liberal view, especially important for LDCs which tend to have small domestic markets. The importance of trade is that it acts to diffuse technology, knowledge, managerial skills and entrepreneurship while foreign aid is viewed as a supplement to the development process by filling resource gaps in capital, technology and education.

Although not specifically designed for the purpose, some of the assumptions of the Harrod-Domar model formed the basis for much of the later theorising on the links between foreign aid and economic growth.^{<28>} Harrod and Domar argued that the critical growth rate

needed to maintain full employment was dependent on the relationship between income and spending, on the one hand, and the additional output generated by the initial volume of investment, on the other hand. The rate of growth could be expressed in a mathematical form by determining the incremental capital-output ratio (ICOR). External aid was taken as an addition to savings and investment via domestic sources.<29>

However, the key document in the lexicon of aid policy-makers of the 1950s was Walt W. Rostow's "The Take-Off into Self-Sustained Growth,"<30> In this, and in his larger work, Rostow conceived of economic development as proceeding via a series of progressive stages toward a teleological goal of a mass industrial society. His stages are: (1) traditional society; (2) a long period in which the socio-economic conditions for growth are established; (3) a short but critical period of "take-off"; (4) the emergence of a mature economy; and (5) the era of high mass consumption.(Rostow,1960)

The importance of Rostow's model to the theory of foreign aid is his focus on the "take-off" as the critical stage in the growth process, the achievement of which requires three conditions: (a) a rise in productive investment to at least 10% of national income; (b) the emergence of a "leading" manufacturing sector with a high growth rate; and (c) the rapid creation of social and political institutions conducive to economic growth. Of critical importance was the presence of a political elite with the capacity and inclination to mobilise capital from domestic sources. It was Rostow who suggested that domestic savings during the "take-off" period should be supplemented by capital imports to increase the level of investments to a "critical mass." He assumed that, as the level of domestic savings rose, the need for foreign aid would decline.

Subsequent development theorists, however, have seized upon the first two of Rostow's pre-conditions, all but forgetting the complexities of his third pre-condition and the daunting task of creating a socio-political framework conducive to growth. It is this omission which has been responsible for the sterility and poverty of a number of later aid models.(Mikesell,1983: 9) In addition, proponents of the "balanced growth," "imbalanced growth" and "big push" theories appeared to gloss over the limits to which LDCs could effectively "absorb" external capital in view of their low levels of managerial skills and administrative infrastructure.

The next significant contribution to the aid literature was a model developed by Hollis B. Chenery and Alan M. Strout, both at the time policy-makers for the US AID administration.<31> Their model, commonly referred to as the "two-gap" model, actually combines three elements held to be critical for estimating foreign aid requirements. The constraints on growth in their model were: (a) the gap in skills -- essentially absorptive capacity; (b) the gap between the required investment and actual savings; and (c) the foreign exchange gap needed to supplement domestic savings and foreign exchange earnings. Of the three constraints, the gaps in savings and foreign exchange were considered to be the most critical -- hence, the "two-gap" theory. Aid was seen as a catalyst capable of diminishing the effects of all three constraints but particularly the savings and exchange gap. The essence of the two-gap model is that, if there is a lack of substitutability between imports and domestic resources, then, to prevent resource waste and to accelerate growth, foreign capital may be needed to fill either the savings or the foreign exchange gap. Capital therefore, as the independent variable, was seen as the primary engine of growth.

The concept of stages and the "two-gap" model have come under severe attack from a group of "aid pessimists," including not only radicals but also a number of mainstream neo-classical economists.(Bauer,1983) Firstly, as Rostow himself was later to concede, a number of countries have succeeded in modernising without external capital in the early stages of their development, thus questioning the need for a preoccupation with this variable. Secondly, other more radical critics have questioned the assumption that a capital-inflow in the form of foreign aid will augment domestic capital investment. Resources are, after all, fungible, and the provision of aid for a particular high capital-intensity project does not in every case mean that the savings on domestic capital that would have been expended in funding the project will then be released and utilised for other development purposes. Perhaps, especially in the Third World, it is quite conceivable that this saved investment will instead be diverted into wasteful channels -- notably military spending.

The assumption of the Chenery-Strout model is that domestic savings, and thus investment, will gradually increase with a growth in per capita income. In time, therefore, LDCs will be able to generate all their overhead capital domestically and hence will no longer require foreign aid. However, a number of statistical studies do not bear out the assumption that domestic savings increase with the rate of growth in per capita income.<32>

Other critics have gone still further to suggest that foreign aid may actually impede, rather than promote, long-term growth. In a famous paper, Keith Griffin(1970) demonstrated that aid, instead of increasing the investment rate, may actually be swallowed up in increased consumption and thus act to reduce the savings rate.

Although the validity of some of the statistical methods employed by the "aid pessimists" has been questioned (Papanek, 1972), there can be no questioning of the overwhelming empirical evidence that, save for a handful of dynamic states, the first and second United Nations "decades of development" have produced, among the bulk of the LDCs, growth rates far below those originally projected. With the exception of those rare cases where the volume of aid input has been sufficiently large to be a critical factor, such as South Korea, Pakistan and Taiwan, aid has not acted as the catalyst of development that its proponents had claimed. Mikesell sums up this growing recognition of the inadequacy of aid by his stark conclusion that "as a general proposition, external capital or aid is neither a necessary nor a sufficient condition for development." (Mikesell, 1968: 29) Both proponents and critics alike now attach greater significance to the role of productivity, recipient government policies, the building up of local institutions and of an administrative service, as well as the emergence of a middle class willing to risk investment in industry, than to external capital per se, as key factors in growth. (Streeten, 1973: 305)

b. The Radical Perspective

From a dependency perspective, the problem with this diffusionist approach is that it fails to recognise that its alleged solutions to problems in the Third World -- the intensification of market relations there -- are in fact at the origin of all difficulties. (Smith, 1985: 551)

While the Liberal school has been based on an acceptance of the current international economy and has an optimistic prognosis of the

impact of interdependence for Southern development, Radical theorists have a virtually polar opposite conception of the workings of the international system and of the sources of inequality both among and within nations. This Radical 'vision' is fundamentally pessimistic, which has in turn led to prescriptions and strategies for the developing world emphasising varying degrees of disengagement from the international economy, coupled, in the political realm, with the advocacy of socialism and revolution.<33>

For the purposes of parsimony, a wide diversity of positions have been collapsed under the umbrella term 'Radical' as used in this study. The principal variants are Marxist and Dependencia. Elements of Structuralist arguments can also be included. (Spero, 1983: 138-141) Common themes are, however, apparent among them which may be summarised as follows:

1. Radical writers deny a harmony of interest between the nations of the North and South. The essence of the interaction between these two groups of nations is seen instead as a zero-sum game. Some Radicals continue to conceive of the South as a group of 'proletarian' nations, struggling to emancipate themselves from the domination of the bourgeois nations of the North. (Frank, 1969)
2. In common with political Realists, Radical writers view power as the driving force shaping the character of relations among nations. Their attention is therefore focussed on the sharp inequalities of power between North and South. The centrality of politics in Radical writings leads scholars of this persuasion to be highly critical of the ideological separation of economics and politics commonly found among developmentalists. The diffusionist focus on institution-building, attention to the needs of 'dominant' classes in recipient states, and neglect of 'the broad masses' confirm, for the Radicals, a diffusionist acceptance of 'order' (read authoritarianism) as the necessary hand-maiden of rapid economic growth. (Tony Smith, 1985: 545)
3. Radicals recognise the pervasive power of international capitalism which is concentrated among the developed economies of the North. In the Radical view, the international economic system, although increasingly under strain, continues to operate to the advantage of the North and to the perpetual disadvantage of the South. The visible expression of this 'locked-in' dependency is the North's establishment and management of an international division of labour which has been responsible for

shaping and conditioning the history of the South.(Ibid.,: 545)

4. In what is essentially a deterministic argument, Radicals contend that the concentration of political and economic power in the North leads irresistably to a tendency to exploit the South. Marxists and Dependencistas alike posit that this compulsion for exploitation is largely a survival mechanism springing from the long-term contradictions of capitalism.(Palma,1982)
5. The underlying and self-sustaining mechanism perpetuating this exploitation is the phenomenon of unequal exchange.(Amin,1974; Emmanuel,1972) One expression of this unequal exchange has been the long-term decline in the terms of trade of LDCs whose exports of raw materials are subject to a decrease in their foreign exchange value while Northern exports of manufacturing and capital goods continue to retain or improve their exchange value.(Prebisch,1950) This trend, by straining the balance of payments and retarding the accumulation of domestic capital, is clearly inimical to rapid economic growth in the South.
6. The cumulative effect of unequal exchange has been the creation of a "widening gap" in national incomes between North and South, a fact which Radicals have dwelt on to expose an anomaly of Liberal theory and its assumption that an unfettered market will progressively reduce global inequality.(Walleri,1978: 590) The widening gap thesis has also been an important part of the arguments of Structuralists, such as Hirschman and Myrdal, who coined the terms 'backwash' and 'polarisation' to draw attention to the possibility that the tendency for greater economic disparity among nations may indeed be stronger than the 'spread' or 'trickle down' effects.(Hirschman,1984: 17)

On the specific issue of foreign aid, Radical writers have produced a barrage of criticisms which, for methodical treatment, can be divided into the political and economic impact of aid although, in practice, there is considerable overlap.

Paul Baran, an early and iconoclastic precursor of the dependency school, includes foreign aid in "the arsenal of 'united action' [used by the North] against the independent development of the underdeveloped world."(Baran, 1967: 121) In what is essentially a conspiracy thesis, Baran argues that foreign aid is little more than "a scheme of bribing the peoples of the underdeveloped countries to refrain from overthrowing the existing system." However, as Baran saw it, this stratagem

is beset by a host of insuperable contradictions. The logic of economic growth is such that a slow and gradual improvement in the living standards in developing countries is an extremely difficult, if not altogether impossible project. Whatever small increases might be attained with the help of western investment and charity are swamped by the rapid growth of population, by the corruption of local governments, by squandering of resources by the ruling class, and by profit withdrawals on the part of western investors. (Ibid.: 121)

Baran's fiercest invective is reserved for the comprador bourgeoisie that emerges in developing societies with the help of western private and official capital:

The crusade against national and socialist revolutions conducted by the western powers ...cements an international entente of precisely those social groups that are bound to be antagonistic to genuine economic and social progress. (Ibid.)

In a similar vein, Harry Magdoff has claimed that "the underlying purpose of all US foreign economic policy is nothing less than keeping as much as possible of the world open for trade and investment by giant multinational corporations." As an adjunct to this goal, Magdoff alleges that "throughout all its variations" aid has only two "dominant and interrelated ends," namely, to keep poor countries dependent and to promote capitalism for the benefit of international corporations. (Magdoff, 1969: 173) He dismisses entirely the naive belief that the US has "sincerely encouraged social and economic development abroad," pointing instead to the tendency of "obscuring economic and commercial interests by covering them up with idealistic and religious motivations." (ibid.,: 73)

As a final example of the Radical attack on the political motives and realpolitik informing the aid policies of the major donors, we may include the views of Keith Griffin and J.L. Enos who comment that

it would be naive to assume that the major objective of foreign assistance is economic development....we believe that there are other reasons for which aid is given, and by which donor countries judge its effectiveness....that economic aid from the powerful to the powerless, from the metropole to the satellite, is an instrument of power politics. How much a country lends to another country will not be determined by its need, or its potential, or its past economic performance, good or bad, or its virtue, but by the benefit it yields in terms of political support. (Griffin and Enos, 1970: 314-315)

No dimension of aid giving has escaped the critical gaze of the Radicals. Thus, for example, the value premises and policy recommendations of a number of international development committees, such as the Pearson Report (1969), the Brandt Commission (1980), and the RIO Report (1976), have all been subjected to rigorous scrutiny. In a savage attack on the Pearson Report, Samir Amin dismisses it as a superficial and deceptive document, "peddling ineffectual "solutions" derived from a philosophy of pious wishes." (Amin, 1971: 313) The naivete of the Report's conception of an aid "partnership" is underlined by I.G. Patel's rejoinder that an equality of opportunity to engage in dialogue cannot, of itself, establish parity in decision-making. (Patel, 1971: 305) As Patel points out, the Report's emphasis on choice criteria is crudely patronising and paternalistic. Moreover, it places the poorest developing countries (the LLDCs), which have the greatest need for aid, at a considerable disadvantage in the scramble for scarce hand-outs.

When the Pearson Report called for a re-direction of aid-giving away from bilateral channels and towards multilateral institutions^{<34>}, Radicals remained unconvinced that this resolved the problem of the intrusion of donor political and commercial interests in the shaping of aid programmes and projects. The naivete of the rationale that multilateral aid is more 'neutral' and development-focussed has been exposed by Teresa Hayter in two separate studies of World Bank and IMF funded development projects. (Hayter, 1971; Hayter and Watson, 1985) In essence, her argument is that there is no essential difference in the outlook or lending practices of the IMF or the World Bank and those of bilateral donors. Development considerations are not, in her view, given the central place commonly claimed. Hayter found that the LLDCs, with their impoverished domestic markets and lack of potential for developed world exporters, received a relatively lower share of World Bank and IMF projects than some of the more rapidly developing LDCs with large domestic markets and considerable potential as export targets for OECD states. Hayter's other principal conclusion was that policy, and consequently practice, is heavily biased in favour of the United States. The US was able to exert leadership and control over the form of each agency's lending activities by virtue of its possession of the bulk of the "votes" which, in turn, was the expression of its preponderance as the largest contributor to both agencies.

The economic impact of foreign aid has received equally harsh treatment from Radical scholars. The practice of "tying" aid by source has been widely criticised as an exploitative practice, benefiting the donor's economy at the expense of the recipient. (Bhagwati, 1972; Hamilton, 1978) The Pearson Report, for example,

suggested that tying reduced the value of received aid by as much as 20%. This practice of binding the recipient almost exclusively to goods and services of the donor means that the former is, in many instances, obliged to buy uncompetitive goods that serve only to bolster declining industries in the donor nation. The issue of tying will be addressed again in relation to the Canadian programme. For the present it is apposite, in view of the wider concerns of this study, to reflect upon Joan Robinson's terse verdict that tied-aid is essentially a mercantilist device that runs completely counter to the doctrine of free trade.(1981: 114)

Dwelling still on the issue of impact, critics of aid have stressed the inappropriateness of high-profile, capital-intensive mega-projects which, it is argued, provide few jobs, promote inequalities and thus exacerbate social tension. The creation of a labour aristocracy by the misplaced concentration on industrial projects has, it is claimed, led to uneven growth and to stagnation in the rural areas. On this last point, the use of food aid has also been held to have had negative effects on the productivity of the rural sector, partly by inducing apathy and dependency, but also because food aid commonly undercuts local prices and thus lowers the incentive to produce.(Stevens,1979: 202) Moreover, since the volume of food sent is usually dependent on the surplus levels of the donor, recipients run the risk of receiving the lowest volumes at the time of highest need.

The Radicals have also been critical of the subtle way in which aid acts as a marketing device, promoting inappropriate "taste transfers" for such nutritionally useless products as white bread and Coca Cola. The net effect of this "hidden persuader" is to enhance the commercial prospects of the donor while promoting, among

the elites of the recipient, luxury consumer preferences that cannot be met by local products. As a result, local small-scale industries tend to decline. (Freeman, 1978: 305)

Tied-aid notwithstanding, the potential value of aid may also be significantly reduced by other stringent conditions such as relatively high interest rates on the part of some donors, and/or short loan maturity periods. The cumulative impact of this welter of potential conditions may be to create a situation in which the inflow of capital fails to raise productivity sufficiently to yield an increase in income greater than the interest or amortisation charges on a loan. Hence the long-term effect of foreign aid may, ironically, be a reduction of the net real income of the recipient. (Frank and Baird, 1975: 146)

However, for the nations of the South and for their Radical sympathisers, the most damning and hypocritical aspect of foreign aid is that it represents no more than a substitute for the wider structural problems of trade reform. In essence, the South seeks "trade, not aid" -- a slogan which has been central to efforts by the "Group of 77" to press for reform of the international economic system under a banner calling for a new international economic order (NIEO).

What the the preceding discussion of the pitfalls and inadequacies of foreign aid has underlined is the consistently exaggerated claims of its potential. Aid has, in short, been oversold. One explanation for this tendency lies in the persistence of a remarkably ethnocentric understanding of the problems of development, coupled with a reliance on inappropriate historical analogies. Firstly, since economic development in the west was based on capital accumulation and the expansion of technical knowledge, it

was assumed that these same factors would be the critical variables in the development of the Third World. Secondly, the spectacular success of the Marshall Plan provided the misleading analogy that the timely provision of external capital was all that was necessary to trigger the "take-off." There is, however, little objective basis for the analogy of a war-devastated Europe and the new states of Africa, Asia and Latin America. In the former case, war had brought a temporary halt to the progress of relatively developed economies with considerable pools of entrepreneurial talent and managerial expertise. In much of the developing world, however, it is precisely the absence of these factors which has acted as an obstacle to growth.

The extraordinary crudity and naive optimism of the Diffusionists is well captured by the archetypal political Realist, Hans Morgenthau, who points out that, contrary to the pundits of aid,

a nation may suffer from deficiencies, some natural and insuperable, others social and remediable, which no amount of capital and technological know-how supplied from outside can cure. The poverty of natural resources may be such as to make economic development impossible. Nations such as Jordan and Somalia are in all likelihood incapable of economic development for that reason. Many of the recipients of subsistence aid are likely to fall into that category. (Morgenthau, 1962: 305)

In similar vein, Morgenthau continues on the theme of human resources in starkly Realist terms:

To put it bluntly, just as there are bums and beggars, so there are bum and beggar nations. They may be recipients of charity, but short of a miraculous transformation of their

collective intelligence and character, what they receive from the outside is not likely to be used for economic development.(Ibid.,:305)

Although Realists are likely to part company with Radicals on the possibility of giving aid without strings, Morgenthau is in complete agreement with radical claims that foreign aid upholds structures of inequality by strengthening, in many instances, repressive and exploitative elites. As he wryly comments,

a team of efficiency experts ... might well have improved the operations of the Al Capone gang; yet by doing so, it would have aggravated the ... evils which the operations of that gang brought forth.(Ibid.)

Even in the few instances where aid has been given in sufficient quantity, and can be considered a success, it may unleash a Pandora's Box, or revolution of rising expectatons, which then acts to strain the political system of the recipient beyond endurance. Ironically, this may lead to an increase in the very forms of violence and political instability the aid package may have been designed to alleviate.(Huntington,1968: 6)

Caution is, however, in order before entirely dismissing the potential and actual contribution of aid. On the one hand, some of the most successful developers have received substantial amounts of aid. These include Brazil and Ivory Coast. On the other hand, Zaire, Argentina and Tanzania, for example, have also received substantial amounts of aid with poor results.(Mikesell,1983: 32) That said, however, foreign aid is likely to continue to play a major developmental role in Africa, if nowhere else in the Third World, at least for the foreseeable future. This is especially so since

private investors seem struck by a strong case of risk-aversion in Africa. By way of evidence, the DAC 1982 review noted that in sub-Saharan Africa, external aid represented 8% of the combined GNP of countries of this region, almost 40% of their current imports and more than 50% of their investments. (OECD, 1982: 29)

In the face of this confusing and conflicting evidence, perhaps the most that can be said is that development is a far more complex issue than originally imagined. As one writer has put it, "foreign aid is no business for the intellectually tidy." (Wilhelm, 1984: 7) Like so much else, summary "either-or" conclusions are singularly inappropriate and probably impossible to arrive at on the issue of aid. In the final analysis, much of the literature on the impact of foreign aid is reduced to seeking criteria that reflect, to a greater or lesser degree, the intrusion of value premises.

c. Changing Conceptions of Development

A social philosopher can tell mankind what he believes; a social scientist can only reveal what he knows, which, to tell the truth, is quite little as concerns development. Given the present state of knowledge in the social sciences it is quite likely that the concept of development will remain as it has, throughout its career, in the realm of social philosophy. (V.J. Tavascio, 1972: 200)

The preceding discussion has been developed in order to situate the specific case of foreign aid within the wider debate on the models and strategies most appropriate for development. Given the criticisms evident in the brief survey above, it is no surprise to note that development economics has undergone profound shifts in the prevailing consensus regarding both the meaning and most efficient

strategies of development. In sequence, this consensus has shifted from an emphasis on (a) the "trickle-down" model (1954-1965); to (b) the agricultural development strategy (1965-1973); to (c) the basic needs strategy (1973-1981); and to a currently prevailing free-market strategy. (Jorgensen, 1985)

The "trickle-down" thesis is premised upon the imperative of rapid capital accumulation and the laying down of a modern industrial and manufacturing infrastructure. The price of this emphasis is, however, an acceptance of an initial widening of inequality. Internal income re-distribution will only be possible in the long-term as the economy begins to mature. (Kuznets, 1963) The implication of this doctrine for aid planning has been to promote a bias towards capital-intensive mega-projects rather than small-scale labour-intensive programmes.

As an alternative to "trickle-down" models, some dissenting development economists argued instead for policies that produced both equity and growth. (Hollis Chenery, et al., 1974) Paul Streeten and Dudley Seers became the leading lights of a group of scholars stressing policies and projects that provided a minimum of basic human needs for the poorest and most populous sector of developing countries -- the rural peasant. <35> Attention to the basic needs of this group and to the productivity of the rural sector was held to be more critical than capital accumulation and infrastructure as the pre-requisite for an expanding domestic market. (Streeten, 1981; Arnold, 1982)

Just as the debate among international relations scholars on the relative merits of the Idealist and Realist conceptions of politics has been grounded on two markedly different sets of value-premises, so also in the field of development economics a similar schism

reveales different initial assumptions and ethical viewpoints.

Tavascio's comment at the beginning of this section highlights the extent to which all development models and definitions contain within them value judgements and philosophical positions with considerable policy implications. Given the current state of crisis in the field of development economics (Lal, 1983, 1985; Seers, 1982), and the absence of a consensus or "dominant paradigm," a value-laden definition of development is inescapable. For the purposes of this study, such a definition must be linked to the aid phenomenon and to a conception of what constitutes "quality aid." The task becomes complex at this point, however, because as already observed, aid agencies are typically charged with the pursuit of multiple objectives which may result in a trade-off between developmental or philanthropic goals, on the one hand, and self-interested political and economic goals, on the other hand. Since there is frequently no agreement or statement of the primary emphasis of the aid programme, it follows that the definition of "quality aid" and of development is likely to differ according to the particular interests involved.

At the broadest level, development can be conceived of as a "dynamic process of raising political, economic and social capacities from resources that are available to the nation in the long run." (Raffael, 1971: 8) The issue of whether a development strategy should emphasise capital-intensive industrialisation or Basic Human Needs, has been largely avoided here, not because this writer is value neutral, but because this study is concerned with an examination of substantive policies not policy prescriptions. Adopting a particular conception of development, say Basic Human Needs, does, moreover, lead to severe interpretive problems. How, for example, would one judge the contribution of infrastructural

projects? Few would argue that energy or transportation networks are of no developmental value. Moreover, for a country such as Canada, with a proven track record and expertise in infrastructural projects, does it not make sense to maximise this advantage?

One way of resolving this dilemma of definition would be to assess the "shape" of the Canadian programme according to the relative weights given to these different interests. In doing so, the study will follow the categories developed by Mosley(1982). These are: (a) commercial interests of the donor; (b) military and political interests of the donor; (c) overall development of the recipient; and (d) redistribution to the poorest people and poorest groups. Categories (a) and (b) are broadly self-interested while categories (c) and (d) are broadly philanthropic or 'other' regarding. The commercial bias of category (a) will be assessed using criteria such as the proportion of tied aid, proportion of ODA given to "credit mixte" facilities^{<36>} and the proportion of aid disbursed to LDCs with rapidly growing markets. Mosley develops as a proxy index of military and political interests, the "reach" of a particular donor via its aid programme, though he concedes that this is far from ideal since some nations such as Sweden and Australia opt for a high profile in a few nations while others such as Canada spread themselves thinly across the bulk of the Third World. The philanthropic efforts of categories (c) and (d) will be assessed using criteria such as the proportion of ODA given to the poorest countries (LLDCs), proportion of ODA given to agriculture and social welfare, volume of ODA and the grant equivalent content. It will be appreciated that the indices are to some extent mutually exclusive; an emphasis on credit mixte and tying reflects a bias towards the large project and more prosperous LDCs with proportionately less

attention to Basic Needs, agriculture and the least developed countries (LLDCs). The implicit philosophical conception of development in the commercial category will therefore be a capital-intensive 'trickle-down' approach, while the philosophical underpinnings of interest categories (c) and (d) will lean more, although not exclusively, in the direction of a Basic Needs approach.

3. The Policy Process: Bureaucratic Politics, Organisational Constraints and Societal Interests

While the previous approaches have concentrated on the motives of aid giving, or else on its impact, the final set of approaches focus on the policy-making process: in the case of the Bureaucratic Politics model, on the level of inter-departmental interaction; in the case of the Organisational Constraints approach, on the level of the aid agency itself; and, in the case of neo-Marxist approaches, on the relationship between the state and vested social interests.

a. Bureaucratic Politics

The "Bureaucratic Politics" model was first elaborated by Graham T. Allison who, in a seminal work, exposed the shortcomings of Realist premises, which he referred to as Model 1.<37> In particular, he drew attention to the limitations of an approach that assumed a unitary decision-making actor. He focussed, instead, on the emergence of policies and decisions as the product of "pulling and hauling" among government departments of varying strength and widely differing domestic constituencies. A central strand of Allison's model "is that the policy outcome of the bargaining process need not be coherent and often is not."<38> The value of

this model as a lens on foreign aid programmes is the insight it provides into the apparent anomalies and centrifugal pressures within an aid programme; it may help, for example, to explain the frequent discordance between the rhetoric of global welfare and the reality of self-interest. The model has been applied in studies confined to limited time-frames in the aid programmes of Canada, Sweden and the USA.<39>

Allison's model was originally formulated in the context of a presidential system but may be equally applicable in the Canadian parliamentary system -- although, given a smaller and more cohesive civil service, its effects are likely to be more moderate.<40> One reason for the model's likely utility is that the focus of Canadian foreign policy has shifted away from issues of "high politics" (diplomatic and security issues) towards economic concerns (the substance of "low politics"). Much of this shift in emphasis can be traced to the early Trudeau years.<41> The "domestication" of the foreign policy process has led to the increasing involvement of traditionally domestic departments such as Industry, Trade and Commerce(IT&C), Finance, Treasury Board and so on. In the process these departments have been "internationalised." In the context of aid, there has been considerable functional overlap in the policy-making process with an inevitable inundation of the weak development lobby (represented by CIDA and a few non-governmental organisations) by more powerful departments with strong parochial interests. The latter have legitimised their encroachment into the aid arena in order to further domestic mandates and enhance their organisational well-being. In the present climate of an emerging policy-making process relating to the use of mixed credits, the Bureaucratic Politics model may yield important insights into the

evolving pattern of the Canadian foreign aid programme.

b. Organisational Constraints

An important, and early, application of what can be called an "Organisational Constraints" approach to the study of foreign aid was Judith Tendler's Inside Foreign Aid, which is an examination of the US AID agency. Her approach has been extended to other development agencies, both bilateral and multilateral, by Dennis Rondinelli.^{<42>} An important feature of Tendler's work, one shared with Allison's model, is its questioning of the assumption of homogeneous decision-making. The accent is instead placed upon those internal organisational impediments which can hinder the achievement of development goals. Tendler points out that the nature of the aid agency's task is markedly different from those of other domestic departments. The complexity of the development process and the absence of tried and tested formulae often require solutions in the creation and implementation of projects that are both experimental and unconventional. Rondinelli develops this point by stressing that, while development economics increasingly recognises the "uncertainty" of both its theoretical models and the development process, aid agencies continue to use planning and management techniques that emphasise control rather than flexibility, experimentation and social learning, which are essential ingredients in the successful implementation of development projects.

Among the constraints facing aid agencies are: (a) the problem of defining at the outset the precise objectives of the project; (b) lack of appropriate data; (c) inadequate understanding of local social and cultural conditions -- and the likely impact of the

project upon these variables; and finally (d) low levels of "absorptive capacity" in the recipient nation.<43> Thus, while an aura of technical competence may provide an aid agency with some degree of insulation from external criticism, it does so at the considerable cost of militating against innovation. In an environment in which control is the prime impulse, development objectives are easily submerged or distorted, leading, in Tendler's view, to a bias towards the selection of large-scale infrastructure projects as against the more problematic and administratively time-consuming basic needs or labour-intensive projects. She concludes that, paradoxically, "whether or not development assistance is inspired or subverted by imperialistic motives, the logic of the organisation will lead the assistance entity to behave as if it were acting that way." Hence, "dependency is the result not necessarily of design but of an agency's attempt to do well."<44>

c. Neo-Marxist Perspectives

In the Bureaucratic Politics model a focus on the unequal competition among government departments highlights a process where the demands of some interests are advanced at the expense of others in the framing of policy. While there is an implicit recognition of a relationship between external social forces and the state, the model is more appropriate for an examination of the process of inter-departmental interaction than for fleshing out the significance of the links between government and external interest groups. In short, the model is linked to a pluralist conception of the political process in which policy emerges as the aggregate of debate and conflict among competing groups.

The nature of the relationship between state and society is, however, the central concern of neo-Marxist approaches to public policy-making. Scholars of this persuasion conceive of the state as an agent of domination, accumulation and legitimation. The crudity of the original Marxist conception of the state has, however, now been refined and updated to take account of the growing centrality of the state in all aspects of the social, economic and political life of modern societies. The growth of the welfare state, the nationalisation of industry, and the extensive regulatory activity of government, are indicative of the pervasive presence of the modern state.

While the centrality of the state is taken as given, what remains at issue among neo-Marxist scholars is the precise nature of the relationship between state and society. The principal divide in this debate is between "instrumentalists", such as Ralf Miliband(1973), who retain an allegiance to early Marxian portrayals of the state as the "executive committee" for furthering the interests of the dominant class, and those "structuralists" who follow Nicos Poulantzas(1975) in insisting that the central task of the modern interventionist state is to ensure the viability and maintenance of the structure of capitalism. This latter task can only be achieved if the state itself becomes "relatively autonomous" from the societal forces which normally mould or constrain its activities. Thus, in marked contrast to the instrumentalists, for whom the state (via its elites) is coterminous with the dominant socio-economic class, structuralists take the view that state officials may on occasion act contrary to the immediate interests of the dominant class in order to further the long-term stability of the domestic capitalist order. As structuralists see it, while the

state does act on behalf of the long-term interests of the dominant class, it by no means its behest in the short-term.

In addition to the empirical evidence to be cited later in this study, there is a strong basis from which to argue an instrumentalist conception of the Canadian state. As C.B. Macpherson has stressed, national economic growth and development in a new country such as Canada is invariably predicated on the "embrace of private enterprise and government." (in Panitch, 1977: 15) Furthermore, just as the Canadian economy is in an exposed position due to its dependence on world prices for staples, so too has the political system "from the beginning been exposed to an unusual extent, to the pressures of economic interest groups." (Ibid.: 15) In a similar vein, Rianne Mahon has argued that the *raison d'être* of the administrative elite is the improvement of the economy: "In taking measures to assist the economy, civil servants are acting to assist the corporations that dominate that economy."

In addition, there are now a number of well documented studies which have demonstrated the close links between the political and corporate elites -- between Ottawa and Bay Street. (Clement, 1975; Olson, 1980) Thus, Cranford Pratt (1984) has argued that there exists in Ottawa a "dominant ideology" that "underpins a narrowly selfish set of attitudes that excludes much play for cosmopolitan values or...equity considerations." In Pratt's view, this ideology coincides with the corporate sector. It remains to be seen whether domestic labour should also be included in this alliance. In the context of aid, the net effect of this dominant ideology is a bias in favour of business and the pursuit of self-serving interests evident in the commercialisation of the aid programme and the progressive dismantling of that programme's developmental content.

This debate, while both intriguing and important, is not the central focus of this study. The concept of relative autonomy would, in addition, be difficult to operationalise in the context of aid. At this stage it is not possible to provide definitive conclusions supporting either an instrumentalist or structuralist position. On the one hand, a preliminary investigation of the role of interest groups suggests that commercial export lobbies have been very influential in pressing for a greater use of aid funds for the promotion of trade and the reorganisation of CIDA as an instrument more responsive to the needs of the business sector. Conversely, it is also evident that the development lobby has had little success in dissuading Ottawa from initiatives such as the Aid/Trade Fund. These impressions appear to support the position of Pratt(1984), who opts for a modified 'dominant class' model as the most realistic conceptual framework for analysing the political economy of foreign aid. On the other hand, there appears to be no clear evidence that the government has been entirely a 'captive' of the wishes of the corporate sector or that it has in some sense been 'coerced' into the implementation of initiatives such as the Aid/Trade Fund.

Conclusion

This chapter has introduced some of the key issues surrounding foreign aid. It has provided a theoretical framework which enables the study to consider the aid phenomenon from three conceptually distinct perspectives. These perspectives relate to: (a) the nature of international relations; (b) the relationship of foreign aid to economic growth; and (c) the aid policy-making process. The use of such a framework should lead to a comprehensive understanding of the

Canadian aid programme as an illustration of one facet of North-South relations.

An examination of the "shape" of the Canadian programme will, in turn, contribute to an assessment of the contending positions within each perspective. These debates are: (a) between the Idealists and Realists within the sub-discipline of international relations; (b) between diffusionists and radicals on strategies of economic growth and the meaning of development; and (c) among proponents of different models of policy-making. The first two sets of perspectives are located at the systemic level of analysis and provide an important philosophical background to the aid issue. The final perspective of policy process will shed light on the precise mechanisms and pathways through which policy emerges. The Organisational Constraints model underlines the extent to which administrative and personnel constraints may unwittingly undermine the pursuit of stated development objectives. There is, however, at this societal and governmental level of analysis, also a debate between pluralists who contend that policy emerges as the product of bargaining among competing groups, and neo-Marxists who portray a conspiratorial relationship between the state and the corporate sector. Neo-Marxists also address the issue of relative state autonomy in the framing of policy.

FOOTNOTES

- <1> For a summary of the debate between Realists and Idealists, see Charles W. Kegley and Eugene R. Wittkopf, World Politics: Trend and Transformation (New York: St. Martins Press, 1981).
- <2> George Modelski, "Foreign Policy in an International System in the Ancient Hindu World," American Political Science Review, Vol.58 (1964), pp. 549-560.

- <3> Edward Hallet Carr, The Twenty Years Crisis, 1919-1939 (London: Macmillan, 1951); Hans Morgenthau, Politics Among Nations (New York: Alfred A. Knopf, 1966). The heritage of the tradition is described by Robert Gilpin in "The Richness Of The Tradition Of Political Realism," International Organisation, Vol 38, 2 (Spring 1984), pp.287-304.
- <4> Ibid., p.290.
- <5> Quoted in Charles Lipson, "International Cooperation in Economic and Security Affairs," World Politics, Vol.137, No. 1 (October 1984), pp.1-23
- <6> Stanley Hoffman, The State of War: Essays on the Theory and Practice of International Politics (New York: Praeger Publishers, 1982).
- <7> Gilpin, "The Richness of the Tradition...", p.290.
- <8> Kenneth N.Waltz, Man, The State and War, (Reading, Mass.: Addison-Wesley, 1979).
- <9> Ralf Dahrendorf, Class and Class Conflict in Industrial Society (Palo Alto: Stanford University Press, 1959).
- <10> Gilpin, op.cit., p.290.
- <11> Thucydides, The Pelopponesian War, (New York: Modern Library, 1951)
- <12> Morgenthau, op.cit., p.5.
- <13> This last point is a central part of Graham T. Allison's critique of Realist premises which he refers to as Model 1, or the Rational Actor model. See, for example, his "Conceptual Models and the Cuban Missile Crisis," in Wolfram F. Hanrieder, Comparative Foreign Policy: Theoretical Essays (New York: David McKay Co.,1971). On the issue of state centrism Robert Ashley has argued that "for the neo-Realist, the state is ontologically prior to the international system." See his "The Poverty of neo-Realism..." International Organisation, Vol.38, No.2 (Spring 1984), p.240.
- <14> Two examples from this group are: Robert Gilpin, War and Change In World Politics (New York: Cambridge University Press, 1981); and Kenneth N. Waltz, Theory of International Relations (Reading, Mass.: Addison-Wesley,1979).
- <15> Ibid.,
- <16> Harry Eckstein, "Case Study and Theory in Political Science," in Fred I. Greenstein, Handbook of Political Science, (Vol.17) Strategies of Inquiry (Reading, Mass.: Addison-Wesley, 1975).
- <17> Imre Lakatos, "Falsification and Methodology of Scientific Research Programmes," in Imre Lakatos and Alan Musgrave (eds.), Criticism and the Growth of Knowledge (Cambridge: Cambridge University Press, 1970).

- <18> Robert O. Keohane, "Theory of World Politics: Structural Realism and Beyond," in Ada W. Finifter (ed.), Political Science: The State of the Discipline (Washington, D.C.: American Political Science Association, 1983), p.512.
- <19> Ibid., p.283.
- <20> See the debate on Realism in International Organisation, Vol 38, 2 (Spring 1984).
- <21> On the concept of a polycentric world, see, for example, Alastair Buchan, Power and Equilibrium in the 1970s (New York: Praeger Publishers, 1973).
- <22> Robert O. Keohane and Joseph S. Nye, Power and Interdependence (Boston: Little, Brown and Company, 1977); Richard S. Falk, in Foreword to Robert Johansen, The National Interest and the Human Interest (Princeton: Princeton University Press, 1980). Representative of this position is Johansen's view that the nation-state is not only an outmoded institution, but is now positively detrimental to the future welfare, safety and viability of the planet.
- <23> Charles Lipson, "International Cooperation in Economic and Security Affairs," World Politics, Vol. 137, No. 1 (October 1984), pp. 1-23.
- <24> Kai J. Holsti, "Change in the International System: Interdependence, Integration and Fragmentation." In Ole R. Holsti, Randolph M. Siverson and Alexander L. George, Change in the International System (Boulder: Westview Press, 1980), p. 27.
- <25> The seminal work in the Functionalist tradition is David Mitrany, The Functionalist Theory of Politics (London: St. Martins Press, 1975). On mercantilism see, for example, Mary Kaldor, The Disintegrating West (Middlesex: Penguin Books, 1979). Robert Gilpin has also addressed this issue: see his US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment (New York: Basic Books, 1975).
- <26> Terms other than the ones chosen could also have been applied, such as Liberal, Orthodox or Mainstream, in place of Diffusionist, while Dependency or Marxist could have been used in place of Radical.
- <27> Examples of diffusionist or liberal economic theory include Harry G. Johnson, Economic Policies Toward Less Developed Countries (New York: Praeger, 1967); Gerald M. Meier, International Trade and Development (New York: Harper and Row, 1963).
- <28> Much of the material in this section is based on Raymond F. Mikesell, The Economics of Foreign Aid and Self-Sustaining Growth (Boulder, Colo.: Westview Press, 1983)
- <29> The Harrod and Domar equation is $g=s/k$, where g is the rate of growth, s the savings ratio, and k , the capital output ratio which, ideally, should be at least 5:1. See Joan Robinson,

Economic Philosophy (Harmondsworth, Middlesex: Penguin Books, 1981), p. 98.

- <30> W.W. Rostow, "The Take-Off into Self-sustained Growth", Economic Journal, March 1956, pp. 25-48.
- <31> Hollis B. Chenery and Alan M. Strout, "Foreign Assistance and Economic Development", A.I.D. Discussion Paper No 7, US Department of State, April 1965.
- <32> See, for example, Michael B. Dolan and Brian W. Tomlin, "First World-Third World Linkages: External Relations and Economic Development," International Organisation, Vol 34, 1 (Winter 1980); V. Bornschier, C. Chase-Dunn, and R. Robinson, "Cross-National Evidence of the Effects of Foreign Investment and Aid on Economic Growth and Inequality: A Survey of Findings and a Re-analysis," American Journal of Sociology, 84 (1978), pp. 651-683.
- <33> For examples of the Radical tradition, see Samir Amin, Accumulation on a World Scale (New York: Monthly Review Press, 1974); Samir Amin, Unequal Development: An Essay on the Social Formations of Peripheral Capitalism (New York: Monthly Review Press, 1976); Paul A. Baran, The Political Economy of Growth (New York: Monthly Review Press, 1968); Radical writings on aid include Teresa Hayter and Catherine Watson, Aid: Rhetoric and Reality (London: Pluto Press, 1985); Robert Clarke and Richard Swift., (eds.), Ties That Bind (Toronto: Between the Lines Press, 1981), Dennis Goulet and Michael Hudson, The Myth of Aid (New York: IDOC North America, 1971).
- <34> Other recommendations of the Pearson Report included: (a) that donors should reach ODA levels of 0.7% of GNP by 1980; (b) that 20% of a donor's total ODA should be directed to multilateral institutions; (c) that the interest terms of ODA should be limited to 2% with a 25-40 year maturity; (d) that there should be a suspension of the provision limiting the rights of recipients to call competitive bids; and (e) that the World Bank's role should be expanded to exercise leadership in orchestrating donor policies and reporting procedures.
- <35> The Basic Needs strategy (BNS) was officially endorsed at the tripartite conference on Employment, Income Distribution and Social Progress, at Geneva in 1976. The BNS represented something of a paradigm shift within development economics even if the 'fashion' proved short-lived. In the words of the Geneva Programme of Action, "Basic needs include two elements: first, certain minimum requirements of a family for private consumption, adequate food, shelter and clothing as well as certain household equipment and furniture. Secondly, they include essential services provided by and for the community at large, such as safe drinking water, sanitation, public transport and cultural facilities." It also emphasises participation in decision-making both by target groups and planners in the recipient as well as the donor country. The implication for aid projects would be a re-orientation of projects towards rural development and productivity. At a financial level, it would require a greater willingness on the

part of the donor to finance local costs as recurrent expenditures, while at the administrative level a BNS strategy would require a change in methods of project appraisal and a simplification of reporting and accounting procedures. (OECD, 1977: 93-101)

- <36> Mixed credits are a relatively recent method of financing capital-goods exports. In essence, they are financial packages "blending" concessional foreign aid funds with more commercial loans to produce interest rates and repayment terms well below prevailing market rates.
- <37> Graham T. Allison, "Conceptual Models and the Cuban Missile Crisis," American Political Science Review, LXIII, No. 3 (1969)
- <38> Abraham F. Lowenthal, "'Liberal,' 'Radical,' and Bureaucratic Perspectives on US Latin America Policy: The Alliance For Progress in Retrospect," in Julio Cotler and Richard Fagen (eds.), Latin America and the United States (Palo Alto: Stanford University Press, 1974).
- <39> On the USA, see Lowenthal, op. cit.; on Canada see, Peter Wyse, The Canadian Foreign Aid Programme: An Organisational Audit, (Montreal: Centre for Developing Area Studies, 1982); On Sweden, see Janet G. Hankin, Growth Without Guidance: The Development of the Swedish Foreign Aid Programme, (Unpublished Ph.D Dissertation, McGill University, 1979).
- <40> Kim Richard Nossal, "Allison Through the (Ottawa) Looking Glass: Bureaucratic Politics and Foreign Policy in A Parliamentary System," Canadian Public Administration Vol. 22, No. 4, (Winter 1979).
- <41> Michael Tucker, "The Domestication of Canadian Foreign Policy," in Michael Tucker, Canada's Foreign Policy: Contemporary Issues and Themes (Toronto: James Lorimer and Co.), 1980.
- <42> Judith Tendler, Inside Foreign Aid (Baltimore: The Johns Hopkins University Press, 1975); Dennis A. Rondinelli, "The Dilemma of Development Administration: Complexity and Uncertainty in Control Oriented Bureaucracies," World Politics, Vol.35, No.1 (1981).
- <43> Mikesell, Op. Cit., P. 54.
- <44> Tendler, op. cit., p.109.

CHAPTER III

THE IMPACT OF MOTIVES ON THE "SHAPE" OF AID PROGRAMMES:
AN OVERVIEW

It is as foolish to assume that the donors mean nothing that they say as it is to assume that they mean everything that they say. The problem for the student of aid is how to distinguish the truth from the fiction. (White, 1974: 131)

Whenever a state executes foreign policy some values are advanced and others are negated. Every major policy issue contains within it a moral issue. (Johansen, 1980: 24)

This chapter examines the motives underlying the policies and practices of donor states. A primary distinction is made between the motives of self-interest and philanthropy. A schema of aid categories is briefly outlined as a prelude to a discussion of the motives informing the aid programmes of the United States and the Nordic countries. An attempt is made to demonstrate the way in which the position and preoccupations of each of these states in the international hierarchy conditions the uses to which the aid programme is put in pursuit of foreign policy goals. For the United States the imperatives of power politics have been translated into an aid programme heavily informed by the premises of political realism and the pursuit of self-interest. Among the Nordic group, middle power status and a domestic political culture stressing the values of social welfare and human equality have produced, until recently, aid programmes strongly influenced by Idealist conceptions of international affairs.

1. Philanthropy Versus Self-Interest

The "shape" of an aid programme is merely the surface manifestation of the motives underlying aid-giving. Nations use foreign aid to pursue a range of political, economic and humanitarian interests. The relationship between these multiple objectives are complex, but in broad sweep, two primary motives can be distinguished, namely philanthropy and self-interest.

Within these two broad categories a series of more specific objectives have been identified, and a useful starting point for a discussion on motives is to consider the six categories of aid-giving developed by Hans Morgenthau. These are: humanitarian, subsistence, military, bribery, prestige, and aid for economic development. (Morgenthau, 1962) Of these, only the first category of humanitarian aid can be considered non-political -- although, even here, the donor may derive considerable kudos in the international community from its altruism.

Subsistence aid is overtly political and is given by the larger donors with strategic or military interests. Aid in these situations is designed to maintain the status quo by preventing a political breakdown in a recipient country, where a radical alternative exists that would be inimical to the interests of the donor. The US, for example, allocates the lion's share of its Emergency Support Fund (76%) to just three countries -- Egypt, Israel and Turkey. (Berg, 1984: 202-205) Moreover, the ESF is currently the fastest growing type of US economic assistance, now making up over 50% of the total programme. In 1982, it amounted to \$2.8 billion. (Ibid.)

Prestige aid usually takes the form of a desire by recipient

political elites to construct the large-scale project that serves to symbolise modernity. In fact, these mega-projects may "perform no positive economic function. They owe their existence to the penchant prevalent in many underdeveloped nations, for what might be called conspicuous industrialisation." (Morgenthau, 1962: 309)

Prestige, however, is not simply the concern of the recipient nation's political elite. It is also an important, if rarely acknowledged, goal for the donor. Aid in this context is designed to project national power and enhance international presence. With the growing disillusionment among donors about the developmental impact of aid, this most diffuse of motives may now be assuming central place as the sole *raison d'être* for maintaining costly aid programmes. It may simply be that, for the donor, an aid programme forms part of the 'social overhead' costs for maintaining a conspicuous international presence. This motive is most obviously present in the aid patterns of two former colonial powers -- France and Britain. In the French case, national prestige pervaded the thinking behind the Jenney Report on foreign aid (1963). Foreign aid was to advance the concept of "rayonnement" -- the diffusion of a civilisation claiming universal validity and the legitimate desire of a nation to implant its culture peacefully. (Ohlin, 1970: 29) Similarly, Britain has attempted to foster its culture and traditions abroad by the importance it attaches to its Commonwealth ties. Its aid programme extends to 120 countries, although by value, the bulk of its energy has been concentrated in South Asia and sub-Saharan Africa. For middle powers, such as Canada and the Nordic states, which lack the economic and military wherewithal to impose their presence and command attention, foreign aid provides a relatively inexpensive method of achieving their more modest goals

of advancing international prestige and the cause of global development.

In Morgenthau's view, "much of what goes by the name of foreign aid today is in the nature of bribes. [Aid] here performs the function of a price paid for political services rendered or to be rendered." This practice of giving bribes as though they were contributions to economic development "inevitably creates, in the giver as well as the recipient, expectations which are bound to be disappointed." (Ibid.: 302)

Humanitarianism is sometimes portrayed as the sine qua non of aid programmes. The Pearson Report (1969), for example, reasons "that the simplest answer to the question [why aid?] is the moral one: that it is only right for those who have to share with those who have not..." In practice, however, philanthropy is accorded virtually no place in the framing of aid policy and practice. Its primary function has been symbolic -- to provide legitimacy for a donor's programme, while conveniently diverting attention from the pursuit of self-interest.

The provision of economic assistance is hardly a novel phenomenon. In the classical European balance of power system between the seventeenth and nineteenth centuries, both Britain and France paid subsidies in order to cement alliances or support allies. However, in both scale and volume the proliferation of foreign aid as an instrument of foreign policy is a post-World War II phenomenon. The modern era of aid-giving began with the US Lend Lease Act during the Second World War and represented a modern version of the traditional subsidy extended to allies in time of war. (Knorr, 1973: 163)

In the postwar era, two principal and related factors were

responsible for the sudden increase in aid giving, namely, the emergence of new economically-backward states in a wave of decolonisation and the solidification of the Cold War based on ideological and power conflicts between East and West. The coincidence of these two factors allowed donor states to meet ideological and power concerns under a veneer of humanitarian impulses, employing an economic rationale emphasising growth and development.

The Marshall Plan of aid for the reconstruction of war-torn Europe was the first, and still the largest, example of the use of aid capital for both political and economic purposes. It was designed to maintain the viability of the western democracies by (a) preventing Soviet political intervention, and (b) promoting the recovery of lucrative European markets for the dynamic US export sector. With the announcement of President Truman's Point Four, the western democracies embarked, under US leadership, on a "bold new program for making the benefits of industrial progress available for the improvement and growth of the underdeveloped areas." (in Spero, 1983: 151)

As Cold War tensions escalated, the Marshall Plan and Point Four were followed, in 1950, by Soviet aid to China and then, in 1955, by Chinese aid to neighbouring communist and non-communist states, such as North Korea and North Vietnam. The Chinese case is a reminder that aid is not simply a policy instrument of rich countries. In 1970 the value of China's aid programme was \$709 million compared with a modest \$204 million for the far more prosperous Soviet Union. (Knorr, 1973: 164) This is an impressive statistic, given China's relative poverty at that time and the extent of its internal turmoil during the cultural revolution. Other developing countries

have also extended foreign aid. India, for example, has given aid to both Nepal and Sikkim, while Saudi Arabia, Kuwait and Libya have extended considerable amounts of aid to poorer Islamic states in the Middle East. With the exception of Kuwait, what all the above mentioned LDC donors have in common is their potential and aspiration as regional powers. These states have used aid to establish patron-client relationships and extend their regional influence. The motives of these LDC donors also casts doubt on any naive assumptions that the more developed LDCs would use aid purely to promote Third World solidarity.

In the wake of the 1973 oil crisis, OPEC emerged as a significant new player in the donor community, the volume of its aid in some instances (e.g., Saudi Arabia) far exceeding those of many DAC members. However, a study of OPEC's aid policies and its use of aid as an instrument in promoting global economic reform, revealed that OPEC aid was little different in motives and substance from that of traditional donors.(Hunter,1984) In sharp contrast to the rhetoric of the Solemn Declaration(1975), Hunter concluded that OPEC failed to act with vigour and determination to advance Third World objectives. Unable to develop a unified strategy to coordinate the use of their newly-acquired assets, individual OPEC members instead used aid an instrument of foreign policy.(Ibid.: 279) Thus, while OPEC aid is highly concessional, generous as a percentage of GNP, and rarely tied by source, it is geographically highly concentrated and heavily informed by political and security motives. The aid patterns of Saudi Arabia are illustrative of these conclusions. The principal motives informing Saudi aid policy are: (a) combating radicalism in the Arab world; (b) preventing the spread of Soviet influence; (c) enhancing Saudi prestige abroad; and (d) promoting

Islamic culture and values. Given these concerns and the geopolitical sensitivity of the area in which the country is located, it is not surprising that Saudi aid should be regionally rather than globally concentrated. The bulk of Saudi aid is extended to other Arab states and to Pakistan and Indonesia, both of which have a Muslim majority.

The preceding discussion has highlighted the frequent discordance between what donors say and what they do. This distinction between rhetoric and reality is the principal analytical device used in this study to disentangle the trade-off among aid-giving objectives. For this purpose, the study has adopted two terms used by Robert Johansen in his study of US aid to India. (1972) "Professed" motives refer to the rhetorical, or 'ideal,' statements by politicians and officials in donor states. "Instrumental" motives refer to the pursuit of self-interested and self-serving motives that produce direct benefits for the donor. It will be readily appreciated that the two terms are not mutually exclusive in that "professed" motives that promote humanitarian goals such as the reduction of poverty may, in fact, serve instrumental purposes, such as the enhancement of prestige. A sufficient margin of difference remains, however, between the two terms to warrant their retention. In essence, the "professed" motives are 'other' regarding while instrumental motives are self-serving.

2. The United States: Foreign Aid and Realpolitik

Any discussion of the motives of aid donors must begin with the US aid programme. There are at least five compelling reasons why the United States must be treated as the baseline and initial reference

point from which to gauge the performance and policies of other donors. Firstly, despite a widespread sense of "aid fatigue," reflected in progressive decline in the volume of its ODA as a percentage of GNP and a marked decline in its support of multilateral institutions such as UNESCO and of the IDA replenishment agreements, the US remains the largest donor by value. Thus, although by 1984 US ODA was in real terms 18% lower than the average between 1968 and 1972, the US still managed to extend aid well in excess of any other donor. Secondly, as the pre-eminent superpower with global commitments, the US has undoubtedly been the most overtly political of the DAC donors in its use of aid as an instrument of foreign policy and power politics.

Thirdly, allied to these political considerations has been the pursuit of domestic economic gain through aid funds. A persistent theme of this economic dimension has been the promotion of the private sector, or privatisation. Fourthly, therefore, in both the political and economic spheres, US aid has been highly interventionist. Finally, the use of aid to pursue political and economic motives has been grounded in a strong ideological foundation reflecting fairly constant beliefs about the value of democracy and attitudes of suspicion and hostility towards rival ideologies -- especially communism.

The most enduring feature of US foreign policy in the postwar era has been the preoccupation of policy-makers with issues of security. This preoccupation has usually been linked with 'the national interest.' President Johnson believed "that our own security rests on the security of others." (in Johansen, 1972: 15) Though somewhat muted for a brief period during the 1970s, the spectre of communism has been a central feature of US security

considerations. Closely allied to this has been a long-term interest in supporting the evolution of free, open and self-supporting societies. (Wilhelm, 1984: 6) Thus, for example, Rostow and Millikan, the two principal architects of the US programme, viewed aid as a constructive outlet for nationalist energies in the developing world, which would encourage social progress and in turn promote political maturity and confidence in the democratic process. Aid, quite simply, was seen as a long-term investment and as an insurance policy. As Rostow put it,

our basic aims are political rather than economic. They are political in the sense that our most pressing interest is that the societies of the world develop in ways that will not menace our security; either as a result of their own internal dynamics or because they are weak enough to be used as tools by others. Foreign aid is perhaps the only way around the impasse which confronts us when we try to use our political influence directly and represents one of the few potentially effective levers of influence. (Rostow, 1960: 62)

The rationale for this interventionist style of aid-giving has been repeatedly relied upon to legitimise US machinations in a number of 'fragile' recipient states. These include Brazil in 1964, when emergency aid was extended to support the consolidation of a pro-US military junta, and Chile, where in the 1964 election, aid was given to support the campaign of the conservative Eduardo Frei and later to ensure the defeat of the politically suspect Salvador Allende. (Huntington, 1970-71: 170) The US has also been unrepentant in its willingness to use PL480 food aid to "punish" recalcitrant client states. On two occasions this has included India. In the mid-1960s President Johnson reduced food supplies during a severe

food shortage in India in an effort to register his displeasure with the growing 'independence' of Indian foreign policy and induce a change in attitude and behaviour. On the second occasion, the US suspended all aid, including food aid, to India during the 1971 Bangladesh war.

The views of Milikan and Rostow are fully representative of an ideological ethos that developed in the postwar period in the US and was especially influential in shaping thinking on Third World problems. In an important study of the relationship of ideology and US aid policies, Packenham traced US attitudes on political development in the Third World to "certain premises embedded in American culture and thinking which are collectively designated the American Liberal tradition." (Packenham, 1973: 18-22) He conceives of the US aid programme as the fusion of three overlapping doctrines: economic, Cold War and democratic. The economic doctrine was, and still is, grounded in a belief in the value of a global economic system based on free trade. The Cold War doctrine was, and to some extent still is, based on a fundamental and irreconcilable hostility toward the Soviet Union and the communist model of political and economic development. To these attitudes was added an enduring suspicion of Soviet motives and involvement in the Third World. The democratic ideal as a constant of US foreign policy is based on a belief in the slow incremental emergence of stable, representative polities with a marked preference for reform rather than revolution. In Packenham's view, President Kennedy's Alliance for Progress in Latin America during the 1960s is the most complete expression of the fusion of these three goals. The President's task force on foreign assistance revealed the thinking behind the idea:

The whole programme must be conceived as an effort stretching over a considerable number of years to alter basic social and economic conditions in the less developed world. It must be recognised as a slow acting tool designed to prevent political crises such as those recently confronted in Laos and Cuba. It is not a tool for dealing with these crises after they have occurred.(in Nelson,1968: 69)

Similarly, in a broader study of US foreign policy, Johansen presented four case-studies examining basic style and value premises. Despite the humanism of his own moral convictions, his overall conclusions were starkly realist, since he recognised that "behavior was a more reliable guide than rhetoric" to the normative content of US foreign policy.(Johansen,1980: 364) At the close of his case-study on US foreign aid to India, Johansen concluded that the single most influential determinant of US aid policy was the desire to maximise US strategic advantages and then to enhance the interests of US investors and producers: "One of the least significant determinants of aid policy was the unmet human needs of other societies."(Ibid.: 365)

The current emphasis of the AID agency is on the promotion of "privatisation" through the aid programme. This is, of course, in keeping with the Reagan administration's philosophy of free enterprise and minimum state intervention.(Wilhelm,1984; LaPittus,1984: 264)

Despite this focus, one author, David Wallace, detects some erosion of the earlier strongly ideological and politically interventionist nature of US aid policy. Using the reports of four commissions on US aid as evidence, he traces a shift in the tenor and substance of the US programme from the Cold War to detente. In the Draper Committee, which was formed during Eisenhower's

presidency, the key item on the aid agenda was clearly "the challenge posed by the great strength of the Soviet Union and communist China to dominate the world." (in Wilhelm, 1984: 19) By the time of the Peterson committee which was formed during the Nixon era (1969), the preoccupation with the "Red threat" had diminished and was replaced by the need to fashion a programme "designed to meet the new national priorities facing today's world." As an acknowledgement of the decline of US hegemony and the emergence of detente, the commission recognised that "the security measures that once were needed in a sharply divided world of direct confrontation are not necessarily effective in today's world." (Ibid.) In Wallace's view, it was only with the Peterson Report that the issue of developmental concern was given an important place in US aid policy.

Summary judgements are notoriously suspect in the aid field. However, when judged against "preferred values" such as peace, economic well-being and social justice, Robert Johansen is unquestionably damning in his judgement of the US contribution in the aid field:

For the richest and most powerful national society on earth to do so little to relieve human misery provides a bleak portent for achieving a life of decency for much of the world's population. (Jonansen, 1980: 366)

3. The Scandinavians: Committed Internationalism

Since the earliest days of the DAC, the Nordic countries, in addition to Holland, have built up an enviable reputation as the most progressive and development oriented nations in the donor community. The aid levels of this group, though small in terms of value, have been consistently high as a percentage of GNP. Norway

and Sweden have for some years disbursed volumes of aid well in excess of the UN target of 0.7% of GNP. Moreover, in both these countries there has been considerable public and political party interest in the issue of international development -- an interest far less apparent in other donor nations. The Nordic states have justified their "progressive" reputation by their concern with ensuring that aid does reach the poorest groups, by their relatively modest levels of tied-aid, and by their acknowledged expertise in a number of specialised development fields (Sweden with health care and birth control projects, for example). (Arnold, 1982) The salience of foreign aid and development issues in the domestic political scene and as an instrument of foreign policy can be attributed to a number of common features in the economic, historical and international position of these countries.

The Nordic states and Holland form the core membership of a group of states referred to as the "Like-Minded Countries." More peripheral members, with only an intermittent presence, have included Canada, Belgium, Austria and Ireland. (Dolman, 1979) The bonds unifying this group include the following elements:

- a. Smallness, geographically and/or in population.
- b. A status in the international system as small or middle-tier developed nation.
- c. Smallness and middle-power status leads to an emphasis on cooperation as the principal instrument to advance or defend interests.
- d. Adherence to the concept of strong international institutions which are viewed as important instruments for protecting the rights of the weak in a world of the strong.
- e. As a group, the "like-minded" countries tend to have small externally oriented economies and are therefore strongly reliant on international trade.
- f. As small, partially dependent nations they identify with Third

World grievances and demands.

- g. With the exception of Holland, these nations have not had histories as colonisers. (Dolman op. cit.,:61)

The attributes of "like-mindedness", and the limitations of middle power status, translate into foreign policies that promote Nordic prestige and status by peaceful means. Foreign aid is an obvious choice as an instrument to promote the Nordic presence internationally. Beyond these common themes, the domestic histories and ideological beliefs of the Nordic states also add a solid foundation for an internationalist outlook. There is, for example, a strong commitment to social democratic ideals and to welfare. In addition, the principles of solidarity, equity and cultural diversity have traditionally been strongly emphasised. These features help explain Nordic empathy and solidarity with the Third World and with their arguments that the international system is inequitable. A statement from a Norwegian publication, for example, considered the LDCs to be "in a position of economic dependence on the rich part of the world through a system of ownership, control of the division of labour and power which effectively prevents them from attaining full economic and social independence." (in Dolman, 1979: 64)

Strong adherence to the principle of equity makes it difficult for the Nordic states to accept the "development gap." Thus, for example, President Kekkonen of Finland once affirmed that "the suffering and misery and the destruction of human values caused by the lack of development may in the long run prove to be as vast and as terrible as any imaginable future war." (Dolman, 1979: 79)

At the domestic level, aid has been an important issue of political debate, especially within the various Social Democratic

parties which have been the principal architects of development cooperation in the Nordic states. A brief examination of Swedish aid policies illustrates the linkage between the radical ideology of the social democrats and the evolution of the aid programme. Ian Barnes(1979) has shown how the content of the Swedish programme changed during the 1960s, and by the close of the decade mirrored the increasingly politicised nature of the domestic debate on development. Thus, the 1962 aid bill, beyond the expected commitment to equality, maintained nonetheless a faith in the centrality of economic growth as a key index of development. By 1968, however, Bill 101 revealed a more strident emphasis on equality and social justice and some toning down of the earlier emphasis on growth.(Ibid.: 142)

This strong ideological thrust in aid policy has been reflected in Sweden's greater willingness than Canada's, for example, to curtail aid to "non-progressive" governments. During the 1960s, strong pressure was exerted on the SDP government to curtail aid to Ethiopia which was perceived (accurately) as ruled by a repressive feudal monarchy. At the same time, there were strong demands that the bulk of the bilateral programme be concentrated on those socialist and "progressive" nationalist regimes whose aspirations mirrored Sweden's own concerns, and who were struggling to emancipate themselves from imperialism, neo-colonialism and racial oppression. The black African states of southern Africa, and Cuba and North Vietnam were obvious choices. The SDP government only partially bowed to these pressures, standing firm on its country concentration principle, but catered to more radical elements within the party by extending additional funds to the so-called front-line states in southern Africa (Zambia, Botswana, Lesotho and Swaziland).

Sweden was also prominent in the 1970s in its efforts to aid liberation movements in Africa such as Frelimo (Mozambique), PAIGC (Guinea), MPLA (Angola), as well as ZAPU and ZANU (Rhodesia/Zimbabwe). The other tangible results of this radicalisation of the aid debate was the introduction of aid to Cuba and North Vietnam and an attempt to coerce the Ethiopian government to implement land reform. By the late 1960s, therefore, the traditional desire to help "the wretched of the earth" was transformed into a radical programme with a strongly interventionist style.

While the Nordic states continue to maintain high levels of aid-giving, there are now signs that, even among this group, commercial goals are playing a larger role in aid policy-making. This trend has been evident in the decline in the proportion of Scandinavian aid to multi-lateral institutions as shown in the following table:

TABLE: III.1

Percentage Share of Multilateral Aid in Scandinavian ODA

	Denmark	Norway	Sweden
1965	64	67	55
1975	46	54	43
1983	48	45	33

Source: Stanbridge, 1984:255.

There has also been a growing disillusionment with the earlier Basic Needs focus and a shift back to more traditional infrastructure projects and to increased donor control in the planning and implementation of projects. (Stanbridge, 1984) However, the most visible expression of this new Nordic commercialism is the emergence of institutionalised co-financing arrangements such as

Sweden's 'Swedfund.' These new organisations, often administered by the aid agency, actively seek out more lucrative markets among the richer LDCs by producing attractive packages that combine private and public finance. Aid capital is often mixed with commercial loans to lower the interest rates and thus make the entire package more attractive. (Einhorn,1979; Beckman,1979) These recent developments will be examined in greater detail in the penultimate chapter which looks at the growth of officially-supported export financing among donor governments in the context of recent Canadian initiatives in this field.

Conclusion

This chapter has examined the motives informing the aid policies of donor nations. Its principal direction has been to highlight the frequent discrepancy between what donors say and what they do. This mismatch between rhetoric and reality is, in part, attributable to the pressures faced by donor governments to accommodate and realise contradictory objectives within the same programme. This, in turn, leads to a trade-off among objectives in which certain goals are pursued at the expense of others. The methodological device used to flesh out this discrepancy between intent and practice is the distinction between "professed" or philanthropic motives and "instrumental" or self-interested motives.

A secondary but related task of this chapter has been to demonstrate the impact of motives on aid policy and practice by a more detailed overview of the aid programmes of the United States and Nordic countries.

Of the varied categories of aid-giving, only humanitarian aid

can be considered philanthropic. Among DAC member nations, purely humanitarian disbursements for disaster relief, famine and refugees commonly form only a microscopic proportion of their total official development assistance (ODA). It was therefore argued that humanitarianism plays little part in the formulation of a typical aid programme. It serves instead as a legitimising device for the pursuit of self-interested objectives. It was stressed that the modern era of aid giving began with strategic and political considerations in the forefront, subsistence aid being given by Western and Socialist bloc donors to cement alliances and bolster client Third World states in an era of decolonisation and Cold War.

Attention has been drawn to the fact that foreign aid has not been the exclusive preserve of wealthy OECD nations. It has been, and is likely to be increasingly used, by upwardly mobile LDCs with the potential and aspiration for regional power status. A survey of OPEC and Saudi Arabian aid policies underlines the extent to which philanthropic or Idealist conceptions of Third World solidarity (the Solemn Declaration) are conveniently sacrificed to the pursuit of more narrowly defined economic and strategic benefits for the donor.

The United States as the pre-eminent superpower with global reach is in some ways the "crucial case" of an aid policy conceived primarily for strategic reasons. The overriding concern of US foreign policy has been with security and the preservation of its global influence and economic hegemony. These concerns have been translated into the overt and deliberate use of aid funds in the pursuit of domestic economic gain. Thus, for both strategic and economic reasons the US aid programme has been remarkably interventionist in style. These features are themselves representative of liberal American premises that pervade US foreign

policy thinking, particularly toward the Third World. The fundamental axioms of this policy can be reduced to three elements, namely, Cold War, free trade and the democratic tradition.

The remarkably similar and generally progressive "shape" of Nordic country aid programmes is traced to elements they share in common. These include small size, an open economy, absence of a colonial past and middle power status. In sharp contrast to the US programme, philanthropic and humanitarian motives have been actively pursued by these states which are deservedly perceived as the most 'progressive' in the donor community. However, even here there are now signs of a growing commercialism, evident in reduced commitments to multilateral institutions and the deliberate harnessing of aid funds in the pursuit of trade opportunities.

The US and Nordic states with their contrasting emphases on strategic and economic motives and on philanthropy are designed to serve as yardsticks at either end of the value and motive spectrum. As such, they may be used as reference points by which to gauge the principal direction of the Canadian programme. It is to this assessment that we now turn.

Chapter IV

**THE SHAPE OF THE CANADIAN FOREIGN AID PROGRAMME:
A QUANTITATIVE EVALUATION IN COMPARATIVE PERSPECTIVE**

The purpose of this chapter is twofold. Firstly, the chapter will provide some basic facts on the substance of the Canadian aid programme. In its treatment of this essentially descriptive element, it will adopt a comparative approach, situating Canadian data in the context of the practices and policies of other major aid donors. Secondly, and of more importance, the chapter will use the description and comparison as the spring-board from which to evaluate the relative weight given to the different motives in aid policy: philanthropic, political and commercial. The description will be largely of the current situation and will follow the various "shape" criteria already outlined, such as volume of ODA, grant equivalent content, proportion of tied aid, ODA as a percentage of GNP, and the mix of bilateral and multilateral aid.

Mosley (1982) has addressed the issue of the "quality" of a donor's aid programme. He undertook a comparative analysis of DAC donor programmes along four dimensions which represented the principal range of interests informing any aid programme. These dimensions were (1) commercial interests; (2) political and military interests; (3) overall developmental objectives; and (4) redistributive aid to the poorest groups and states. For each of these 'interests', Mosley established a set of proxy indicators and then attempted to compare the results for each donor.<1> His data will be reviewed in the discussion section at the end of this

chapter.

The difficulties in developing objective and universally applicable "aid quality" criteria have already been noted in Chapter I. Given the variety of positions and the absence of consensus on this issue, it would seem that the most reliable method of interpretation is to follow the broad interest dimensions developed by Mosley in an effort to establish a credit-debit ledger that accurately reflects the relative weight given to commercial and developmental criteria. In broad terms, the political/military dimension and commercial interest will reflect the extent of self-interested motives in the Canadian programme, while the dimensions of overall development and redistribution will represent the philanthropic component of Canada's aid programme.

1. Political and Strategic Interests

As a peaceful middle power with a minor role in NATO, Canada has few overt reasons to link its foreign aid programme to any military interests. As will be demonstrated in more detail in Chapter V, Canadian aid is currently, essentially non-interventionist in nature and largely uninfluenced by strategic interests.<2>

In Mosley's schema, the key index of the extent of a donor's political interest is the geographic spread or concentration of the programme. The logic here is that the foreign policy return of a foreign aid programme is in direct proportion to the number of countries it reaches. While there may be some difficulties with this assumption, the spread or concentration of a nation's aid programme is often an accurate reflection of its foreign policy preoccupations and the political uses to which the aid programme is put. Thus, in

the case of OPEC and US aid, the lion's share is directed to the Middle East. About 70% percent of US aid is directed to just four Middle Eastern countries -- Israel, Egypt, Jordan and Syria. A large proportion of Soviet and East European aid (CMEA) has been concentrated in Asia. Japanese aid has followed a similar pattern although, until recently, trade has been a more immediate concern than either military or political considerations. France's largest recipient has been sub-Saharan Africa, and in 1981 it apportioned 73% of its aid budget to former colonies. Similarly, the UK devoted 69% of its ODA to former colonies. Sweden, in marked contrast to the patterns of the UK or Canada, has preferred a strategy that concentrates its aid effort on a smaller number of countries, particularly in sub-Saharan Africa. The FRG, which directs a large percentage of its aid to Turkey, maintains nonetheless the most balanced geographic distribution among Asia, Africa and the Americas. (Lundell, 1984: 275)

Some of these facts can be confirmed by an examination of Table IV.1 which shows, for example, the heavy concentration of US and OPEC aid in the Maghreb and Middle East and the concentration of Socialist bloc aid (CMEA) in Asia. By contrast, Canada sends no aid at all to the Maghreb and Middle East, a geographic region of major political and commercial importance.

TABLE IV.1

Geographic Allocation by Percentage of Selected Donor
Bilateral Aid Programmes (Net Disbursements 1981)*

	Sub-Saharan Africa	Maghreb & M.East	Americas	Asia	Oceania	Europe	Unspecified	Total
Canada	46	-	8	43	-	-	3	100
France	47	9	22	5	9	1	7	100
FRG	29	8	15	25	1	15	8	100
Japan	10	6	8	71	1	2	3	100
Sweden	48	1	4	32	-	1	14	100
U.K.	31	5	5	37	4	4	16	100
U.S.	17	41	10	14	3	2	13	100
EEC	52	9	5	20	2	3	9	100
OPEC	7	37	-	1	-	3	52	100
CMEA#	-	7	27	56	-	2	8	100

* Canadian figures are for 1982

SOURCE: Table 21.9 in Lundell, Op. Cit., p.285.

The Canadian aid programme is amongst the most widely distributed (some would argue among the most thinly spread) of donor programmes in its geographic reach. In 1982, Canadian ODA was directed to 87 countries -- the largest recipients by volume being located in South Asia. The wide dispersal of Canadian aid, when set against a relatively modest total volume (US\$ 2.1 billion in 1984), makes for a programme in which Canada is a principal player in few countries or geographic regions. The only exception is the Commonwealth Caribbean, where Canada is the largest donor. The spread of Canada's programme reflects traditional international commitments in a variety of francophone and Commonwealth institutions. As Table IV.2 shows, the four largest recipients of Canadian aid in 1983/84 were in South Asia with a further four of the ten largest Canadian aid recipients being located in sub-Saharan Africa.

TABLE IV.2
Ten Largest Recipients of Canadian Bilateral ODA

Fiscal year 1983/84 Recipient	per capita income (1982)*	LDC status	C\$m
Bangladesh	\$100	LLDC	107.31
Pakistan	270	MSA	50.97
India	190	MSA	39.47
Sri Lanka	230	LLDC	35.41
Tanzania	270	LLDC	30.50
Indonesia	380	MSA	22.94
Kenya	380	MSA	19.12
Jamaica	1,240	MIC	18.25
Senegal	430	MSA	15.26
Zaire	260	MSA	15.07

LLDC = Least Developed Country

MSA = Most Seriously Affected Country

MIC = Middle Income LDC

* per capita income data taken from World Development Report, World Bank 1982 and from CIDA statistics.

SOURCE: CIDA Annual Report, 1983/84.

Canada's historical ties to the Commonwealth and la Francophonie is clearly evident in Table IV.3 which underlines the heavy concentration of Canadian ODA in Africa and Asia.

TABLE IV.3

Disbursement of Canadian Aid by Geographic Region(1982/83)

	C\$ millions	%
A. Anglophone Africa	\$187,73	26
B. Francophone Africa	\$144,83	20
C. Asia	\$305.97	43
D. Americas	\$57,76	8
E. Others	\$19,76	3

SOURCE: Canadians in the Third World:
CIDA's Year in Review, 1982.

In summary, the wide geographic dispersal of the Canadian programme and the absence of a specific country or geographic focus suggests that while overt military interests are not a significant element of Canada's aid, more diffuse political objectives to enhance Canada's presence in the Third World and improve its international image are pursued by developing aid programmes, no matter how small, in the bulk of developing nations. The principal example of Canadian efforts to derive political benefits from aid is the assistance given to the Commonwealth Caribbean, which is to double between 1982 and 1987. (Elements, 1984: 10) It may also be argued that the upgrading of Canada's aid profile in Central America is also politically inspired, with the twin motives of distancing Canada from US policies in the region while improving its image among Latin American nations, in particular, and the international community generally.

2. The Poorest of the Poor: The Redistributive Impact of Canadian Aid

Mosley (1982: 50) developed this aid quality index on the logic of arguments that stress the equity concerns of foreign aid and contend that the highest quality aid is "unambiguously" that which gives most help to the poorest. (OECD, 1976: 65) He arrives at scores for this index by the unweighted average of: (a) the proportion of the aid budget given to the least developed countries (LLDCs); and (b) the proportion of the aid budget given for agriculture and social infrastructure projects.

In Canada's programme, an immediate impression can be gained of

concern for the most disadvantaged groups by the very small percentage of ODA given for humanitarian purposes. Despite the provision of an emergency unit for the African famine, Canada in fact devotes only 2% of its total aid budget to the relief and welfare of displaced persons as a result of famine or political upheaval. (Table IV.8)

a. ODA By Income Level

Examining donor aid allocations to the LDCs by income group can yield clues about the relative priority donors give to commercial and philanthropic interests. An accepted axiom of the aid regime is that aid should be directed as far as possible to the poorest countries (LICs) which in some cases receive little direct foreign investment and whose levels of industrialisation are very low. The corollary of this principle is the belief that ODA should not be directed to the newly industrialising countries (NICs), and only in small amounts to the middle income developing countries (MICs). These states are considered to have reached levels of industrialisation and per capita income which merit more competitive forms of direct foreign investment. Where concessional ODA is extended to either of these categories, it is a clear indication of the commercial interests of the donor, who may be extending aid as a "sweetener" in financial packages, or else hoping that the aid relationship with an MIC or NIC will lead to a significant trading potential in the future.

France, for example, allocates more than half of its annual ODA to countries with per capita incomes above US\$ 1,700 (1981 US\$). Sweden, the EEC and the UK all give more than half of their ODA to

countries with per capita incomes less than \$400. The US, by contrast, gives almost one half of its aid to countries with per capita incomes between \$400 and \$1,700. Finally, the FRG and Japan illustrate the pursuit of commercial interest in their willingness to give large proportions of their ODA to the NICs -- a group normally considered to have outgrown the need for concessional financing. (Lundell, 1984: 274)

The disbursement of Canadian bilateral ODA by income group is set out in Table IV.4. What is most striking is the high percentage directed to the low income countries (65% in 1982). Also striking are the very low levels disbursed to OPEC countries and to the newly industrialising countries, indicating that Canada has not been as flagrantly self-serving, in its pursuit of trade promotion in lucrative markets, as have the Japanese and Germans. The figures for the middle income countries are, however, deceptive. The most recent trend is in the direction of an upgrading of the amount of ODA apportioned to the MICs. Canada is thus quietly proceeding to exploit what trade potential there is among this group of nations while avoiding censure by upholding shared donor perceptions that ODA not be diverted to newly industrialising countries.

The relationship between the breakdown of Canada's allocation to different LDC income groups and those of other donors is placed in comparative perspective in Table IV.5. It will be seen that Canada allocates a larger proportion of its ODA to LICs than other donors listed. Also apparent are the large proportions of ODA to the upper MICs by both France and the US, and the high percentage of Japanese ODA directed to the NICs and OPEC.

TABLE IV.4

Allocation of Bilateral Assistance by Income Group

Income Group	Disbursements			
	1981		1982	
	C\$m	%	C\$m	%
LICs	529.5	59.2	670.1	65.7
of which LDCs	217.3	24.3	289.1	28.3
in Africa	130.7	14.6	160.1	15.7
in Asia	77.5	8.7	117.6	11.5
in America	9.1	1.0	11.4	1.1
MICs	143.3	16.0	135.1	13.2
NICs	4.0	0.5	8.7	0.9
OPEC Countries	2.1	0.2	6.1	0.6
Unallocable	215.6	24.1	198.8	19.6
Total Bilateral Assistance	894.5	100.0	1,019.8	100.0

LICs are the low income countries

MICs are the middle income countries

NICs are the newly industrialising countries

* Based on DAC/CIDA definitions and 1980 per capita incomes.

Source: Rudner, 1985: Table 8.2. p.133.

TABLE IV. 5

Percentage Bilateral ODA allocations to LDCs by Income Group: 1981

Donor Country	LICs	MICs	Upper MICs	NICs	OPEC	Unallocable
Canada#	65	13	0	1	1	20
France	18	18	46	5	4	9
FRG	35	35	4	8	9	9
Japan	29	34	4	16	14	3
Sweden	59	18	1	*	*	21
U.K	51	29	3	*	1	16
US	20	43	21	*	*	16
EEC	52	30	5	*	3	10

Canadian data is for 1980.

Percentages have been rounded.

* means less than .5%.

LICs (Low Income Countries) - per capita income less than \$400 (US\$ 1980)

MICs (Middle Income Countries) - per capita income between \$400 and \$1700 in 1981

NICs (Newly Industrialising Countries)

SOURCE: Adapted from Table 21.10 in M. Lundell, "The Economic Assistance of Other Major Donors," in J. Wilhelm and Gerry Feinstein (Eds.),

US Foreign Assistance: Investment or Folly?
(New York: Praeger Publishers, 1984)

b. The Sectoral Concentration of Canadian Aid

The most recent policy statement on the future direction of Canada's aid programme has stressed new priorities for sectoral emphasis on food and agriculture as well as energy and human resource development. (Elements..., 1984) This emphasis notwithstanding, the sectoral distribution of the Canadian programme has traditionally been weighted towards activities from which Canada can gain domestic benefits. In some cases, this has reflected areas of Canadian expertise in fields such as energy (dam construction), mining, telecommunications and electrification systems, railway networks, locomotives and rolling stock. Table IV.6 below presents a breakdown of the sectoral distribution of the bilateral programme

and illustrates quite clearly that, contrary to the general thrust of the 1976 "Strategy" document, the proportion of funding devoted to housing, health and water supply decreased significantly between 1978 and 1982, while the proportion to agriculture and rural development has fluctuated by as much as 27% between 1980 and 1982.

TABLE 1V.6

Canada's Bilateral Aid Commitments by Sector
(as a % of funds allocable by sector)

SECTOR	1978	1979	1980	1981	1982
Agriculture/ Rural Development	23.6	17.0	37.4	36.8	13.1
Energy	17.6	28.5	9.8	34.5*	*25.8
Transportation	31.6	13.0	3.9		
Health, Housing, Water Supply	6.2	10.3	6.6	0.0	2.7
Others	20.9	31.2	42.3	28.7	58.4
Total allocable by sector	100.0	100.0	100.0	100.0	100.0

* reported together in 1981 and 1982

SOURCE: Young, 1985: Table 1.

It will be evident from the above discussion that the traditional areas of expertise coupled with the Canadian content criteria combine to give a sectoral concentration that is heavily weighted in favour of capital-intensive activities, reflecting a strong bias for project over programme aid.<3>

c. CIDA and the Non-Governmental Organisations (NGOs)

In addition to the Mosley indices already discussed, Canada's commitment to voluntary aid agencies may be also included as further evidence of equity concerns. The logic here is that the voluntary aid agencies generally undertake small-scale, poverty oriented

projects.

Canada's commitment to support efforts by domestic voluntary organisations involved in Third World development has improved considerably in recent years. CIDA allocations to the NGO sector rose from 5% of total ODA in the mid-1970s to 10% by the early 1980s. The current level is 11%. Efforts have also been made to improve agency liaison with the NGOs by involving them more in the planning stages, a process made easier by the adoption of a country focus to the programme which is designed to integrate the formerly disconnected bilateral, multilateral and NGO activities in a particular recipient country. Funds for the NGO sector are disbursed under the Special Programmes envelope, which in 1984 amounted to over \$150 million.(Table IV.8)

However, the upgrading of CIDA contributions to the NGO sector also amounts to a tacit recognition that the agency itself has neither the staff nor the time to implement a programme concentrating on the poorest groups in recipient states. Given the considerable constraints on personnel, CIDA has effectively abnegated its responsibility for these groups to the voluntary sector. Despite criticism from many quarters, this development is not unsound in principle. Many of the voluntary organisations are far better placed to respond to the poorest groups, having built up over the years a considerable pool of expertise in the planning and implementation of labour-intensive, welfare oriented projects in, for example, primary health care, education and rural development. Any further increases in allocations to the social and human resources and rural development sector is likely to be predicated on a greater involvement of the the NGO sector, a trend which is likely to improve the planning and delivery of the smaller-scale project.

In summary, the evidence presented on the redistributive concerns of Canada's aid programme is mixed. Canadian efforts show a good response on the first of Mosley's criteria of devoting a high percentage of the aid budget to the least developed nations (LICs). Furthermore, Canada was instrumental in persuading the UN to adopt a resolution in 1981 that donors commit themselves to allocating at least 0.15% of their GNPs to the least developed countries. (Rudner, 1985: 131) Similarly, in 1977, Canada was prepared to forgo the loan repayments of a group of 25 of the poorest countries -- an initiative that was subsequently adopted by other donors. Canada now extends aid to this group entirely on the basis of grants. Finally, CIDA has increased the allocation of bilateral aid to voluntary agencies. However, on the debit side of this particular ledger, little direct CIDA activity is concerned with the social welfare of the poorest groups. This is indicated by a low percentage of humanitarian aid and decreased commitments to health, housing and water supply. While Canada does devote a significant proportion of its aid budget to agriculture and rural development, the amounts fluctuate considerably. Moreover, a high percentage of total ODA to this sector does not mean that redistribution is the primary motive. A concentration on agriculture also reflects a traditional Canadian expertise in this area as well as an interest in promoting the sales of Canadian agricultural products in the Third World generally.

3. Overall Developmental Interests

The extent of Canada's commitment to the overall development of recipient nations can be gauged by a variety of "aid quality" indices. Mosley concentrates on the grant element and proportion of untied aid. A fuller impression can be gained by using other "shape" criteria, such as: (a) the volume of ODA; (b) ODA as a percentage of GNP; (c) proportion of ODA to the Low Income Countries (LICs); and (d) the proportion of bilateral to multilateral aid.

It has already been seen that the grant element in Canadian aid is very high (98%) but that the benefits of this are offset by the low level of untied aid, which has a ceiling of only 20% of the total aid budget. Attention has also been drawn to the concentration of Canadian bilateral aid to the Low Income Countries (Table IV.5).

The quantity of foreign aid disbursed by a donor may provide some indication of the extent of its involvement in international development, although one should be careful in assuming that a large programme is purely philanthropically inspired. As seen already, some donors have significant strategic motivations for aid-giving (the USA, Soviet Union and Saudi Arabia, for example), while others, such as Japan, appear to be largely commercially inspired. Volume of aid is, therefore, of itself, not very helpful as an indicator since it cannot rank the priorities among aid-giving objectives. A more telling index of a donor's commitment to development is the percentage of the GNP that is devoted to foreign aid, especially since this figure can be gauged against the UN-recommended figure that donors should devote 1% of their GNP to aid.

In 1950, when Canada became involved in the Colombo plan, the ODA level represented 0.07% of GNP. The current volume (1984) is

\$2.1 billion, representing somewhat less than 0.5% of GNP. Under the last Liberal administration, a commitment was made to reach 0.7% by 1990. This has since been rolled forward to 1995. The current short-term target is to reach 0.65% of GNP by 1990.

Global ODA now amounts to US\$35 billion from the OECD, OPEC and the Socialist bloc. The largest donors by volume in 1984 were OPEC, USA, France, FRG, and Japan. In 1983, Canada ranked sixth among the 17 members of the Development Assistance Committee (DAC) on the basis of volume of ODA. As a percentage of GNP, she was placed seventh among 22 donors, but third among the seven "Summit" countries. The share of ODA in federal government expenditure has remained fairly constant in recent years. In fiscal 1982/83 it accounted for 2.12% (\$1,724 million) of a total federal budget of \$81.5 billion, compared to 8.56% on defence and 11.07% on domestic economic development. (Rudner, 1985: 127) In 1983, the ODA contribution amounted to C\$71 per Canadian. (Competitiveness and Security, 1985: 24) While the proportion of the federal budget devoted to ODA may appear small, it is in fact considerably better than the performance of some other donors. The UK and US devoted 1.3% and 1.2% of their respective government budgets to ODA, although France and FRG performed rather better, giving over 3.0% and 2.5% respectively of their government budgets to ODA. (Lundell, 1984: 243)

Table IV.7 below underlines the low average figure achieved by DAC members as a percentage of their average GNPs. While Canadian figures are consistently above the average, they are still well behind the levels attained by Sweden, Norway and the Netherlands, which are the only non-OPEC nations to have exceeded the original UN-recommended figure of an ODA level of 1% of GNP. Note also the

low levels of US ODA as a percentage of GNP, which has declined progressively from 0.53% in 1961 to 0.27% in 1980. The Canadian level reached a high watermark of 0.52% in 1975 and 1978 but declined to 0.42% in 1982 and is now slowly climbing again.

TABLE IV.7

ODA as a % of GNP among DAC Donors

	1971-73	1976	1979	1980	1981	1982
Australia	0.54	0.41	0.53	0.48	0.41	0.57
Austria	0.11	0.12	0.19	0.23	0.48	0.53
Belgium	0.52	0.51	0.57	0.50	0.59	0.60
Canada	0.42	0.46	0.48	0.43	0.43	0.42
Denmark	0.46	0.56	0.77	0.74	0.73	0.77
Finland	1.42	0.17	0.22	0.22	0.28	0.30
France	0.64	0.62	0.60	0.64	0.73	0.75
Germany	0.32	0.36	0.45	0.44	0.47	0.48
Italy	0.13	0.13	0.08	0.17	0.19	0.24
Japan	0.23	0.20	0.27	0.32	0.28	0.29
Netherlands	0.59	0.83	0.98	1.03	1.08	1.08
New Zealand	0.23	0.41	0.33	0.33	0.29	0.28
Norway	0.40	0.70	0.93	0.85	0.85	0.99
Sweden	0.50	0.82	0.97	0.79	0.83	1.02
Switzerland	0.16	0.19	0.21	0.24	0.24	0.25
UK	0.41	0.39	0.52	0.35	0.44	0.37
US	0.28	0.26	0.20	0.27	0.20	0.27
DAC Average	0.33	0.33	0.35	0.38	0.35	0.38

SOURCE: OECD: Development Cooperation, Various Years.

The linked indices of volume and percentage of ODA demonstrate that, among DAC member nations, Canada is an average performer. While she is now one of the larger donors, in comparison with the US and some OPEC countries, the total aid budget of C\$2.1 billion is relatively modest. Similarly, as a percentage of GNP, while the Canadian performance is rather better than that of larger donors,

such as the US, it is still a long way from the UN target figure. Even more damning from a developmental perspective, is the inconsistency of Canada's commitment, as evident in the fluctuating levels of its aid allocation as a percentage of GNP.

a. Multilateral Aid Versus Bilateral Aid

Critics of foreign aid often argue that the heavy focus on bilateral ODA perpetuates the exploitative nature of the aid relationship since the sectoral concentration and geographic dispersal of ODA may be biased towards furthering the commercial needs of the donor rather than the developmental needs of the recipient. One way of reducing this preoccupation with self-interest would be to divert a larger proportion of ODA to multilateral channels, where narrow domestic commercial considerations are less pressing, where tendering is likely to be more competitive, and where project selection is based firmly on developmental criteria. While this rationale has been questioned (Hayter, 1971), the effort to multilateralise aid is widely regarded as one index of the developmental and philanthropic commitment of the donor in question. The precise measure of this commitment is the ratio of bilateral to multilateral aid. Donors with strong commitments to overall development will have low ratios of bilateral to multilateral aid.

In this dimension of foreign aid, Canada has lived up to its internationalist outlook by diverting large amounts of ODA to international financial institutions and programmes. Multilateral contributions rose rapidly during the 1970s. In fiscal 1982/83, the bilateral and multilateral components of the programme were equal, each accounting for 37% of the total. The multilateral programme

may, however, be in danger of receiving a reduced allocation as CIDA becomes preoccupied with enhancing the benefits of aid for the domestic economy. (ETDB, 1985) The allocations for the 1983/84 ODA programme are set out in Table IV.8 below which shows the high proportion of ODA currently directed to multilateral technical cooperation and international financial institutions. Together, these two aid channels account for over 38% of the total ODA budget for 1983/84.

TABLE IV.8

A Breakdown of Canada's ODA 1983/84

Programme Component	1983/84	%
Bilateral Programmes	C\$m 662.9	36.6
Special Programmes (NGOs)	150.9	8.3
Food Aid	325.6	18.0
Multilateral IFI	349.1	19.3
Multilateral Technical Cooperation	109.8	19.3
Humanitarian Assistance	36.2	2.0
Scholarships	4.1	1.2
Administration	21.0	1.2
IDRC	67.4	3.7
PCIAC	55.0	3.0
Policy Reserve	30.0	1.7

Source:

Elements of Canada's Official Development Assistance Strategy, 1984, p. 11.

In comparison with other donors, Canada has been more generous in its commitments to the multilateral sector, a fact borne out by Table IV.9, which underlines the very low ratio of Canadian bilateral to multilateral aid. France, in particular, emerges as a very ungenerous DAC contributor to multilateral institutions.

TABLE IV.9

Ratio of Selected Donor Contributions to Bilateral and
Multilateral Channels(1981)

Donor	Ratio
Canada	1.6 : 1
France	13.8 : 1
FRG	5.4 : 1
Japan	2.5 : 1
UK	3.0 : 1
US	2.9 : 1
OPEC	7.3 : 1
CMEA	176.6 : 1

SOURCE: OECD 1981, p.123.

One should, however, be cautious in assuming that, by its willingness to forgo the more immediate benefits to the domestic economy of tied aid, the high levels of Canadian multilateral aid represent purely developmental interests and Canadian largesse. On this issue, professed values mark more purely instrumental goals as will be shown in the subsequent section on commercial interests.

4. The Commercial Objectives of Canadian Aid

Mosley(1982) uses four indicators to assess the commercial interests of an aid programme: (a) proportion of tied aid; (b) proportion of aid directed to middle income countries of good market potential; (c) proportion of aid disbursed to newly industrialising countries (NICs); and (d) proportion of mixed credit in the aid budget. High figures for all these indices would confirm a commercially-oriented programme. In addition to Mosley's indicators, the commercial aspects of food aid and multilateral aid will also be considered.

a. The Mixed Blessing of Tied Aid

Official Ottawa has repeatedly stressed that job creation and export promotion are important objectives of the aid programme. Prior to the emergence of credit mixte and the aid/trade mechanism, tied aid had been the principal technique used to pursue these goals. Tied aid includes "all practices by which the recipient country's effective choice to spend the aid on alternative sources is sought to be proscribed." (Bhagwati, 1970: 80) The recipient is obliged to spend funds on donor services and goods even when those services and goods are internationally uncompetitive. The practice has been strongly criticised since it may reduce the value of aid received by preventing the recipient from acting autonomously to spend funds on the most competitive goods and services. It is an example, par excellence, of inequalities of power in the aid relationship. (Knorr, 1973)

Although elements of the Canadian aid programme are progressive, the principal feature on the debit side of the ledger has been Canadian policy on this issue of tied aid. As Table IV.10 below clearly shows, Canada has the second highest level of tied aid in the DAC donor community and the highest degree of tying among the larger donors. This is particularly evident in the bilateral programme.

TABLE 1V.10

Tying Status of Total ODA, 1983, Percentages.(a)

	UNTIED	TIED	BILATERAL TIED	GRANTS UNTIED
Australia	70.4	29.6	37.1	62.9
Austria	23.0	77.0	88.4	11.6
Belgium	38.0	45.4	67.5	32.5
Canada	45.6	54.4	78.7	21.3
Denmark	67.3	25.2	12.4	87.6
Finland	81.7	18.3	16.1	83.9
France	38.5	46.9	62.4	37.6
Germany	68.3	20.4	33.5	66.5
Italy b	61.3	17.1	30.2	69.8
Japan	69.9	14.1	58.3	41.7
Holland	64.0	11.3	29.7	70.3
Norway	81.0	19.0	34.9	65.1
Sweden	84.7	15.3	15.3	84.7
UK	42.0	41.0	74.6	25.3
US	56.0	32.0	58.9	41.1

(a) Gross disbursements, excludes administrative costs.

b 1982 figures

Source: OECD, 1984.

Not until 1970 did a Canadian government make provision to untie a portion of the programme. However, succeeding administrations have been exceedingly reluctant to reduce the proportion of tying below 80% of the value of a loan. In the international community, Canada continues to have a reputation as one of the strongest opponents to change on this issue, and it initially refused to comply with a DAC memorandum on the loosening of tying arrangements.<4> The extent of Canada's intransigence on this issue and the pull of domestic considerations are evident in the following comments by John Crosbie who, when he was Minister of Finance in the short lived Clark government, maintained that "our obligation is to our own people -- the people who elected us. The developing countries have got to realise we are simply not in a position to write out a blank cheque." (Freeman, 1980: 818)

The rationale for this persistent recalcitrance is not difficult

to establish. From the donor's point of view, tied aid is rational economics since it does, at least, prevent domestic income loss by ensuring that aid disbursed is matched by a demand for imports that will then benefit the donor's economy. In Canada, this reasoning is reinforced by the government's recognition that many sectors of the Canadian economy are uncompetitive internationally and would benefit from state protection which guarantees outlets for products that may not otherwise have been sold. (North-South Institute, 1985) Tied aid acts, in effect, as a government subsidy to the export sector. There is also little doubt that government has been influenced in retaining tying levels by commercial pressure groups wishing to benefit from Third World tenders.

How credible are these twin arguments of job creation and export promotion, and how cost effective is tied aid as an instrument designed to achieve these goals? On the one hand, Michel Dupuy, a former CIDA President, claimed that tied aid had created 100,000 jobs. (Carty, 1982: 167) On the other hand, Economic Council estimates put the figure at 6,328 person years. Studies by the Treasury Board and an independent study by Carleton University economist Keith Hay also suggest that the domestic impact of tied aid may be exaggerated. Hay's study (1978) revealed that tying raised the cost of manufactured goods 25% above world levels and that employment creation was unlikely to exceed 10,000 to 20,000 jobs per annum. Hay also estimated that decreased tying would lower employment levels in the manufacturing sector by as little as 0.2%. Moreover, from the consideration of cost effectiveness, a government study revealed that, in comparison with traditional export promotion projects (by IT&C for example), tied aid programmes are highly inefficient. It was shown that direct government investment in manufacturing would

have created the same number of jobs as the aid programme but at 14% of the cost. Similarly, a Department of Regional Economic Expansion (DREE) subsidy programme would have achieved the same job creation levels at 12.7% of the cost of the aid project. (Wyse, 1983: 4)

Nor do other aspects of the tied aid rationale stand up to close scrutiny. The potential of aid as a counter-cyclical device for the donor's economy is probably minimal in view of the difficulties of synchronising aid purchases with periods of domestic sluggishness (the important exception of food aid is dealt with separately). It is also sometimes argued that aid will help the rejuvenation of depressed area industries. This seems unlikely, given that many of the products produced in these areas are not needed in the Third World. The programme's bias towards infrastructure and manufactured equipment has meant that Ontario and Quebec, where these products are largely produced, have been the principal beneficiaries of much of the programme. The prairie provinces have cashed in on food aid, but the Atlantic provinces are hardly represented in CIDA programmes and projects. Hence, the ODA programme can make no claim to helping the cause of regional economic equality. There is, furthermore, a curious logic behind the "new markets" conception of tied aid. Markets are unlikely to develop if the recipients are obliged to buy from a donor items they would avoid given freedom of choice. To the extent that tied aid provides a costly subsidy for uncompetitive firms, the mechanism also retards the process of industrial adjustment that should be taking place in the light of rapid changes in the international division of labour.

In the final analysis, the real issue has less to do with tying and more to do with whether aid purchases are competitive in quality and prices, delivery and maintenance. In many cases Canadian export

products are deficient in some or all of these requirements. As Spicer puts it, "a superior product will sell itself ... direct help to Canadian exports by aid is, therefore, essentially limited to advertising by samples." (1966: 44-46)

Despite these arguments, tied aid remains the mainstay of Canada's efforts to derive domestic commercial benefits from the aid programme. It has been suggested that the uncompetitiveness of some Canadian products is a principal reason for Canada's unwillingness to substantially reduce its tying levels. Other donors, in contrast to Canada, have pursued their commercial interests by different means. Large donors, such as France, FRG, Japan, UK and US, all direct significant proportions of their aid budgets to the middle income LDCs and the NICs. In the case of Japan, OPEC nations are also considered suitable candidates for concessional assistance. (Table IV.5) Since the MICs and NICs have higher levels of per capita income than the LLDCs, and since they are in some cases experiencing rapid rates of economic growth, the decision to direct aid to them is made at the expense of the share directed to the LLDCs, and with the intention of enhancing trade links with a potentially lucrative market. To Canada's credit, only a small amount of the bilateral aid budget is directed to the middle income LDCs and NICs (Table IV.5). However, low proportions of aid to these income groups and to OPEC nations should not be taken as unequivocal confirmation of Canadian altruism and a sense of responsibility for the developmental objectives of the programme. There has been a modest increase in the allocation of bilateral funds to middle income LDCs to 20% of the programme, and it is by no means implausible to expect further increases in this figure in the future.

b. Multilateral Aid:
Commercial Opportunities, Poor Results

It was suggested earlier that multilateral aid is a double edged sword in which both developmental and more purely instrumental considerations are fused. From the viewpoint of the aid agency, a larger volume of multilateral ODA combines the convenience of passing administrative responsibility and staffing and implementing costs to international organisations such as the World Bank, while at the same time reducing the pressures within CIDA staff to disburse their budgets.(Bruneau et al.,1978) The 1976 "Strategy" paper recommended a maximum of 35% of total ODA to the multilateral sector. By 1979 this figure had been exceeded and stood at 45% of the total programme.(Rudner,1985: 135) Philanthropy may not, however, have been the only reason for this dramatic shift. It is also probable that aid policy-makers were aware that the multilateral IGOs represented a far bigger market for Canadian exporting firms looking for tenders in the Third World. Thus, in fiscal year 1982/83, when Canada's ODA stood at C\$1.6 billion, the World Bank in the same period disbursed US\$6.4 billion along with a further US\$2.1 billion from its soft loan window -- the International Development Association (IDA).

As an agency, CIDA is committed to maintaining its high levels of multilateral ODA, although it faces strong cross-pressures from domestic interests, such as the Canadian Manufacturers Association, Canadian Export Association and the Export Trade and Development Board. These groups have submitted briefs to Ottawa asking for a return to an emphasis on the bilateral programme. However, in defending current multilateral commitments, CIDA's President, Margaret Catley-Carson(1984), has argued not from the perspective of

the developmental impact of this form of ODA, but from the hard-headed pragmatism of the long-term potential of the multilateral market, particularly for the capital goods exporting sector. The fact that Canada is the only donor to be represented on all the development banks, underlines the seriousness with which policy-makers view these channels as potential outlets for Canadian firms. As Catley-Carson stresses, support for multilateral institutions offers domestic exporters entry into an international market with over US\$20 billion available every year. A renewed emphasis on bilateral aid would also be misguided to the extent that it continues to encourage and support only marginally competitive domestic firms which, in turn, retards the process of domestic industrial adjustment.

The logic of these arguments may not, however, be sufficient to protect Canadian multilateral commitments in the future. The strongest counter argument for returning to a bilateral emphasis is the recognition that Canada has achieved only modest success in its ability to capitalise on this expanding "window of opportunity." On the basis of procurement from the development banks, Canada was placed twelfth in a ranking of 17 industrialised countries. By comparison, Canada's contributions to these same institutions ranged from second to seventh -- clearly a very poor return on investment from a commercial point of view. (Catley-Carson, 1984: 10) Table IV.11 below underlines Canada's poor performance in winning tenders from international financial institutions, in this case the International Development Association (IDA).

TABLE IV. 11

IDA Procurement Levels by the Seven "Summit" Countries

	Contributions 1978-1980	Procurement - Fiscal 1981	
	%	\$ Millions	Percentage
Canada	4.3	11.6	1.5
France	5.3	99.7	12.6
Germany	12.5	59.1	7.4
Italy	5.8	58.2	7.3
Japan	10.3	97.2	12.2
UK	10.1	149.2	18.8
US	31.2	89.1	11.2

SOURCE: Adapted from Tables 11.2 and 11.3 in J. Wilhelm and Gerry Feinstein,
US Foreign Assistance: Investment or Folly
 pp. 128, 129.

c. Food Aid: A Surplus Disposal Mechanism

A number of indices used in this assessment of the extent of Canada's commitment to the four broad dimensions of political, developmental, redistributive and commercial interests, do not fit easily into one or other category, but rather indicate the presence of multiple objectives. Food aid is perhaps the clearest example of the existence of these multiple objectives in a single commodity.

Debate on the purpose and utility of food aid continues undiminished. (Stevens, 1979) While it is not the purpose to review this debate here, the essence of the argument hinges on whether or not food aid principally promotes the donor's economy at the expense of the recipient. On the one hand, it has been suggested that food aid creates disincentives among local producers and enables recipient governments to delay the creation of viable domestic agricultural policies. Similarly, it is well known that in some instances food aid does not reach the neediest groups, and may instead find its way to relatively more affluent urban classes

rather than rural peasants.(Erhardt,1983) On the other hand, food aid does have a potential role to play in countries experiencing acute food shortages or in very poorly developed rural economies. Since it is usually provided as a grant, it also releases precious foreign exchange for other urgent development tasks.

However, food aid has been included as an indicator of Canada's commercial interests in the aid programme principally because, while Canada can on some levels be commended for the initiatives undertaken on food aid, policy and the level of food aid are largely the expression of prevailing domestic considerations. In essence, food aid is used as a subsidy and welfare mechanism for the Canadian farming community.

North America serves as the bread basket of the world. Canada and the US account for over two-thirds of the world's food exports. Although US production is between eight and ten times that of Canadian levels, wheat is one of the few products in which Canada has an important share of the world market. In 1984, wheat and flour exports were valued at C\$4,678 millions with agricultural exports as a whole representing 10% of Canada's merchandise exports; the Third World accounted for one third of Canada's agricultural exports and represented its most rapidly growing market for wheat exports.

As might be expected Canada is also a major food aid donor -- ranked second among the DAC donor group, supplying almost 8% of global food aid. This figure is, however, dwarfed by the US contribution of 76% of the total. Canada has also played a leading role in food issues at the international level and was instrumental in establishing the World Food Programme, to which it was the largest contributor in 1975. An example of Canada's commitment in this area was the three year pledge made at the World Food

Conference in Rome in 1974 to supply one million tons of cereal.

Current levels (1982/83) of food aid stand at C\$117.55 million, representing approximately 20% of the total ODA programme. Food aid levels have, however, fluctuated markedly in line with changes in production and price levels. Table IV.12 underlines these fluctuations.

TABLE IV.12

Food Aid Disbursements and Canadian ODA 1966-80 (C\$ million)

Fiscal Year	Total Food Aid (includes multilateral)	Bilateral Food Aid	Food Aid as Percentage of total ODA
1966-67	100	91	57
1967-68	70	64	45
1968-69	66	59	41
1969-70	73	60	30
1970-71	104	87	30
1971-72	80	64	20
1972-73	112	96	21
1973-74	116	95	20
1974-75	175	159	23
1975-76	222	117	25
1976-77	240	151	26
1977-78	230	122	22
1978-79	191	93	16
1979-80*	183	85	14
1982-83	—	—	16

* Preliminary

SOURCE: Williams and Young, 1981: 345.

From a peak of accounting for 57% of total ODA in the mid-1960s, the proportion of food aid in the total Canadian programme has fallen steadily; food aid fell in real dollar terms between 1977 and 1980. This trend has occurred at the same time as commercial grain exports to the Third World have risen. The table records a sharp drop in the value of food aid from fiscal 1970-71 to 1971-72 when it fell from C\$104 million to C\$80 million. These figures underline the extent to which food aid in Canada, as

elsewhere, operates as a counter-cyclical device. The sharp decrease was the consequence of a worldwide grain shortage in the early 1970s. The strong demand for Canadian grain in export markets, coupled with very favourable prices, meant that more Canadian grain was sold than disposed of as surplus food aid. Paradoxically, at a time when many Third World nations were facing an acute shortage of essential foodstuffs, Canada initially supplied less food aid than in previous years.

The counter-cyclical potential of food aid is considerable. In lean years when demand and prices are low, the government, by buying up surplus production which it disposes of as food aid, is able to maintain the profit and income levels of domestic farmers. Food aid becomes, in effect, a welfare policy. (Williams and Young, 1981: 340) The correlation between low grain prices and rising food aid levels (Cohn, 1979) demonstrates Ottawa's determination to limit storage costs and provide a floor beyond which farmers incomes would not fall. Food aid thus offers a grains industry heavily dependent on international trade some protection from the vicissitudes of the external market.

In recent years, Canada appears to have more deliberately pursued the overtly instrumental objectives of the US PL480 programme. The inclusion of rapeseed in the food aid programme may be designed as a possible stimulus to commercial exports. Since the Third World is a major importer of Canadian agricultural products, accounting for 39% of total exports (64% if China is included), the provision of food aid and the establishment of agricultural research centres may be viewed not simply as Canadian largesse, but also as the expression of market development objectives.

Finally, since its inception in 1963, multilateral food aid has

become a growing feature of the food programme, reaching a peak of 50% in 1975-1976. Canada appears in this regard to have responded to the reasoning that multilateral food aid is more effective than bilateral varieties since international institutions can respond more flexibly to global food needs. Canada is, nonetheless, able to achieve domestic policy objectives by tying its multilateral food aid to the purchase of Canadian foodstuffs. (Williams and Young: 345)

The discussion above of Canada's commercial interests in foreign aid has emphasised that the practice of tied aid is still the mainstay of the commercial element of the aid programme. To date relatively little aid has been diverted to middle income LDCs of good market potential or to NICs. However, the development of a new Business Cooperation Branch, the expansion of the exploration activities of Petro-Canada International (PCIAC) to 4% of the bilateral programme, the joint-financing of CIDA and EDC projects, and a modest increase of bilateral aid to middle income recipients, all suggest that Canada may be about to embark on a more concerted expansion of the commercial element. These initiatives will be examined in more detail in Chapter VI.

A further index of the commercial interests of a donor is the proportion of the aid budget diverted to export credit mechanisms, such as mixed credit, where concessional aid funds are 'blended' with commercial loans with harder terms to produce financial packages below prevailing market interest rates and repayment terms. Since this issue will be developed in some detail in Chapter VI, it will be sufficient at this stage to stress that in comparison to other donors, such as France and the UK which devote up to 20% of their bilateral budget to export credit mechanisms, Canada is a late entrant to this new donor practice. Although a percentage figure is

not currently available, the total value of projects financed jointly by CIDA and the Export Development Corporation (EDC) -- the principal source of harder term Canadian loans -- is C\$1.1 billion, of which the CIDA component is C\$298.5 million.

The final, and most recent, indicator of the commercial element in the Canadian programme is the creation of the Business Cooperation Branch which provides "corporate services" for the private commercial sector. The financial allocation to the Business Cooperation Branch and other corporate services increased from C\$27 million in 1984/85 to C\$35 million in 1985/86 and is projected to rise to C\$45 million in 1986/87. (CIDA Estimates 1985/86: 7) Services for the Business sector appear to be growing at a faster rate than other divisions in CIDA.

Discussion and Summary

The task of interpretation is more difficult than that of description. The balance sheet shows a mix of motives which, in turn, reflects an effort by policy-makers to balance and respond to a diversity of interests. The precise nature of these opposing interests and their impact on the policy-making process will be examined in more detail in the next chapter.

To Canada's credit, the ODA programme has shown consistently high levels of concessionality. Canada also directs the bulk of its bilateral aid to low income countries and has taken initiatives to improve the aid allocations for this group of poorest nations. Moreover, in comparison with other donors, it extends very little bilateral aid to middle income LDCs, OPEC countries or NICs. Canada has also directed significant proportions of ODA to multilateral

channels and is the only donor to be represented in all the regional development banks -- although commercial goals have been at least as important as philanthropy in this aspect of the programme.

On the debit side of the ledger, three features underline Canada's continuing commitment to derive domestic commercial benefits from the aid programme. Using Mosley's indices of commercial interest, it is clear that Canada has a very high proportion of bilateral tied aid and shows no signs of revising its position on this issue. Moreover, Canada has the worst record in the OECD for tying its contributions to multilateral institutions. (OECD, 1983: 197) Secondly, the sectoral concentration of the programme remains heavily weighted in favour of capital-intensive infrastructure and project aid, with an implicit acceptance of a trickle-down model of development. Finally, there are now indications of a growing interest in expanding the trade promotional aspects of the aid programme through the joint financing of projects with EDC and Arab and OPEC aid agencies and by the expansion of the services of the Business Cooperation Branch.

The trend towards a more commercially oriented aid programme should not, however, be overstated. A fully commercially driven programme would reveal a consistent correlation between the aid and trade partners of the donor in question. In the case of Canada, with the possible exception of recipients such as Indonesia -- where there is considerable trade potential for Canada -- and Jamaica, which is a middle income LDC, the evidence does not suggest that aid follows trade to any significant extent. On the contrary, despite a strong Canadian investment profile in Latin America and the Caribbean, the Americas as a region receive the smallest proportion of the aid budget. Moreover, the allocations to individual countries

have been growing faster for a number of the poorer recipients than they have been for more lucrative middle income recipients. (Rudner, 1985: 128)

What this inevitably impressionistic discussion highlights, therefore, is the presence of opposing pressures within the programme. The multiple objectives of Canadian aid become clear in Mosley's comparative analysis of the quality of DAC member aid programmes. His results are presented below:

TABLE IV.13

Selected OECD donors: Value of Aid Quality Indices, 1980

	Nature of Interests			
	Commercial	Political & Military	Overall Development	Redistribution
Australia	16.3	38	52.1	14.3
Belgium	17.1	75	52.6	16.7
Canada	27.3	61	52.1	27.3
Denmark	13.8	47	63.9	36.7
France	30.6	92	39.8	13.1*
FRG	15.6	94	56.5	20.4
Japan	31.3	82	49.0	15.6
Holland	17.6	85	60.8	32.3
Sweden	6.9	45	70.2	25.4
Norway	8.3	56	67.7	33.1
Switzerland	15.0	70	63.3	40.1
UK	30.2	81	48.6	19.1
US	30.9	76	48.6	24.9

Note: Compare data down the columns, not across the rows.
SOURCE: Adapted from Mosley 1982, Table 2 p. 52.

On the index of overall developmental effort, Canada ranked eighth in a group of thirteen, with scores similar to Belgium and Australia, but well behind the performance of the Swedes, Norwegians and Danes. Perhaps surprisingly, and in contradiction to the allegations of some radical critics (Freeman, 1978; Carty, 1981), Canada ranked fifth in the redistributive impact of its aid

programme, exceeding Sweden's score and comparing favourably with the scores of Norway and Holland -- two donors that have been traditionally associated with efforts to reach the poorest groups via their aid programmes. It is along the dimension of commercial interest that the self-interested motives underlying Canada's aid programme are most evident, for Canada ranked fifth among the 13 nations.

However, if Canada's performance along Mosley's four dimensions of "quality aid" is compared with the rankings of the five other "Summit" member donors (Italy was not included in the data), then a more favourable picture emerges. Among this group of larger volume donors (US, UK, FRG, Japan, and France), Canada is the most redistributive, the second most concerned with overall development of recipients, the second least commercially motivated, and the least concerned with military and diplomatic motives. Table IV.13 also clearly reveals what is widely recognised informally, namely, that the aid programmes of France and Japan are among the most commercially and strategically motivated, and among the least concerned with overall development and redistribution to the poorest groups within recipient states.

It has been shown that both developmental and commercial objectives characterise the "shape" of the Canadian aid programme. The next chapter considers the policy-making processes that determine the contours of the programme and reveal the nature of Ottawa's "corporate ideology" which effectively weights policy-making in a direction that favours the pursuit of commercial interests.

FOOTNOTES

- <1> There are, of course, considerable methodological pitfalls in defining and using these "aid quality" indices. Mosley himself concedes that a number of them are very "primitive". For example, he uses the geographic spread of a donor's aid programme as an index of the extent of its political and military interests. This is problematic, however, since it may be argued that a more concentrated programme will 'yield' a greater foreign policy return than a thinly dispersed programme, such as Canada's. Moreover, the spread of a donor aid programme, of itself, says very little about the nature of the donor's political or military interests. Of even more concern is the fact that many of the chosen indicators express a mixture of objectives. Thus, for example, while Mosley uses the proportion of the aid budget devoted to agriculture as a partial index of a donor's commitment to equity goals, he fails to account for the possibility that commercial motives may be of more importance to the donor in question. However, in the absence of more rigorous indices Mosley's criteria allow at least some basis for evaluation. The crudity of the measures must, nonetheless, be borne in mind.
- <2> A possible exception is the Central American region, where Canada has been prepared to distance itself from its more powerful American ally by increasing the value of its aid programme to the region to C\$106 million between 1982 and 1987.(Elements...,1984: 10) Chapter V will discuss in more detail the strategically motivated Canadian programme during the Cold War years.
- <3> The essential difference between project and programme aid is that the former is usually highly specific in the uses to which loans and grants are put while the latter allows the recipient more flexibility in the disbursement of aid funds. Project aid is usually preferred by donors since it involves greater administrative control in the planning and implementation stages, a consideration which may be important in improving the accountability of an aid programme to public opinion in the donor state.
- <4> Canada at first refused to comply with the 1965 DAC Recommendation on "Terms and Conditions," which exhorted members to remove procurement restrictions and proposed initiatives to reduce the adverse effects of tied aid. Nor was Canada one of the ten DAC members who joined the 1974 "Memorandum of Understanding on Untying..." which allowed for procurement from other LDCs.(OECD,1985: 242)

CHAPTER V

THE POLICY PROCESS

Aid policies are but a part of the overall foreign policies of donor nations. An examination of Canadian aid policies must therefore be situated within Canada's broader foreign policies and should attempt to demonstrate the impact of shifting foreign policy roles, orientations and objectives upon the substance of the aid programme itself. This chapter will, accordingly, include a historical survey of three important phases in the evolution of the Canadian aid programme, namely, an early era of Pearsonian internationalism, the Trudeau era -- particularly the first two administrations -- and the current era of commercialism, evident during the last Trudeau administration and the new Conservative administration.

Attention will also be drawn to the institutional setting of the aid programme and the relative influence of Parliament, government departments and societal interest groups on the policy-making process. These issues will be examined in the light of the Bureaucratic Politics model and the Organisational Constraints approach.

1. The Motives of the Aid Programme:
Philanthropy or Self-Interest

The motives underlying the aid programme set the broad parameters of the policy process and influence key decisions relating to the shape of the programme. Thus, for example, the

earlier discussion of the US AID programme underlined the overtly political motives, ideological bias and strongly interventionist nature of the programme. By contrast, the discussion of the Scandinavian states underlined the generally more "progressive" nature of their aid programmes. In Sweden, in particular, the influence of a radical socialist ideology was highlighted in the "politicization" of aid. Even here, however, the impulses of global solidarity and humanitarianism have declined somewhat in recent years as more overtly self-interested economic motives have assumed a greater salience. (Beckman, 1979)

How does the Canadian programme compare in motives and substance to the two poles of reference already discussed? The Canadian interest in foreign aid is inevitably of a lesser order than that of a superpower with global interests in both the military and economic spheres. As a middle-tier nation, lacking a nuclear capability, Canada has neither the capability nor the credibility to pursue the same range of economic and political objectives under the aid umbrella. In aid, as in many other issue-areas, Canadian policies have tended to be pragmatic, often attempting to find some middle way between the poles of self-interest and global solidarity.

Although by no means devoid of political motives, Canadian aid has, with the exception of an early phase which coincided with the height of the Cold War, been generally non-ideological and non-interventionist. There also appears to have been more continuity in the "shape" of the programme than, for example, in its Swedish counterpart. This may in part be a reflection of the lengthy tenure of the Liberals in Canada, but it is also in part due to the fact that foreign aid, beyond a general level of support, has never been a salient political issue as it has been in Sweden and the USA.

As noted earlier, the typical aid agency exhibits a confusing mix of objectives and suffers from the perennial problem of responding to a variety of pressures and achieving multiple goals with limited means. Inevitably, a trade-off is involved: the pursuit of a particular goal is usually achieved at the expense of others. The situation in Canada has been no exception. (Reuber, 1980) In broad sweep, the goals of foreign aid have been inspired by domestic economic and political interests as well as global humanitarian and developmental concerns. As the historical section below will demonstrate, political and strategic motives of the Cold War era were replaced by domestic economic concerns which currently have primacy in the aid programme. Moreover, beyond its utility as a legitimising device, humanitarianism has at no time been a central concern in Canadian aid policy. Similarly, as the pendulum has swung in the direction of commercialism, developmental concerns are now receiving proportionately less attention.

Political and foreign policy goals, though rarely overt, have at various times exerted a strong influence on the "shape" of the aid programme. The choice of Canada's primary aid recipients and the dispersal of bilateral aid among such a large number of LDCs is no accident. As Young has put it, "aid buys goodwill abroad for Canada" and gives her a strong voice in Commonwealth and Francophone fora. (1984:32) Canada's upgrading of its total ODA programme and the increasing levels of aid directed to multilateral institutions during the 1960s and early 1970s should be seen, at least partly, from the foreign policy perspective of furthering Canada's international presence and reputation. The motive of prestige is an obvious though, for that reason, neglected aspect in studies of the impulses informing the Canadian aid programme.

An important example of this pursuit of status is the aid programme for the Caribbean, which represents the only geographic region of the world in which Canada enjoys a reputation as a principal player in both the donor and trading communities. Canada maintains the highest per capita aid programme of any donor in the region. The Caribbean was given priority in Canadian foreign policy after the hasty British withdrawal from the Eastern Caribbean and the revival of the Commonwealth as an international forum. Canada has to some extent taken over Britain's vacated role, but it gains heightened prestige and legitimacy by virtue of the absence of a colonial past and by its long history of association with the region. (Bruneau, 1985:6) The region was, after South Asia, the first to be singled out as an area of concentration for the aid programme. However, the first visible expression of an upgraded Canadian presence was the Trudeau government's decision in 1981 to increase ODA to the region to C\$350 million over a five-year period. As Bruneau emphasises, "the Caribbean policy is designed to demonstrate to the international community that Canada can implement a truly disinterested cooperation programme for a manageable target area..." (1985: 6)

When Canada has pursued overtly political goals through foreign aid, it has been more as a supplement to the policies of larger and more influential powers. An example of this supplementing role is the part played by Canada in the Malaysian crisis of 1963-1965 during Indonesia's so-called "Crush Malaysia" policy. This highly provocative campaign was one of the most dramatic examples of Sukarno's strident and confrontational political style and was prompted in part by his perception that the Malaysian Federation was merely a front for British imperialism. The crisis led to a serious

deterioration of Indonesian relations with Britain and other Western states, including the US and Canada. The policy responses of US and Canada are illustrative of the enormous gulf in influence and leverage that each nation possesses. As a major supplier of foreign aid, US was prepared and able to use the strategic instrument of withholding aid to force a change in Sukarno's policies. Although food aid was not suspended entirely, ODA was decreased gradually and used as a carrot and a stick. Further shipments of food aid, for example, were contingent upon progress being made on the political front during the Kennedy administration, and upon the cessation of guerilla activity in Malaysian Borneo under President Johnson.

Relative to the United States, Canada as a less powerful country, supplying much lower volumes of aid, adopted a lower profile and avoided the international limelight. Cohn(1985) reveals, nonetheless, that strong domestic pressures did exist in Ottawa in favour of a strategic withholding of aid and that Canada did not, in fact, send food aid to Indonesia in fiscal year 1964/65 or 1965/66. There was, in addition, an external consideration. As an active member of the Commonwealth, Canada was expected to come out in strong support of Malaysia in the conflict. However, only after the confrontation was settled by Suharto (Sukarno's successor) did Canada resume food aid shipments to Indonesia.

On other occasions, Canada has pursued a more independent path and distanced itself from US development assistance policies. For example, the then Secretary of State for External Affairs, Mark MacGuigan, asserted that:

instability in Central America -- and in most other cases in the Third World -- is not a product of East-West rivalry. It is a product of poverty and injustice. East-West rivalries

flow in its wake. I can think of few examples where it has been the other way around. (in Bruneau, 1985: 22)

Similarly, Prime Minister Trudeau underlined the essentially apolitical Canadian stance on development at the Commonwealth Heads of Government meeting at St. Lucia in 1983, when he stated that:

In our view, states have the right to follow whatever ideological path they choose ... if they keep their social and humanitarian obligations to their people in the forefront of their actions, they will have Canada's help. (Ibid.,)

Assertions of this nature were the basis of Canadian aid to Nicaragua, which rose from C\$4.1 millions in 1981 to C\$7.1 million in 1983; in 1984 a C\$13 million line of credit was extended to the Sandanista government. Similarly, Canada extended aid to socialist Cuba in opposition to US efforts to squeeze that country's economy. It was not until 1975, when Cuban troops became involved in Angola, that Canadian ODA was suspended.

There is, finally, the issue of national unity and identity. The broader purposes of an enlarged aid programme are evident in the following comments of Mark MacGuigan, the then Secretary of State for External Affairs:

Finally, there is the impact that a distinctive international role has had on Canada's sense of itself. I firmly believe that because Canada is a widely diverse country with a strong regional identification and with a strong bilingual and multi-cultural society, a strong international presence has in fact helped solidify a national Canadian identity and self perception in a global context. (MacGuigan, 1983: 200)

This important theme will be developed in the ensuing discussion of

the Trudeau administrations.

As far as domestic economic interests are concerned, Canadian motives are more clear-cut. The aid programme has at various times been intended to create jobs, enhance regional development, promote exports, seek out new markets, protect sunset industries or uncompetitive firms and assist the gestation of sunrise industries and new technologies. In Canada, the principal technique for ensuring a domestic spin-off from ODA has been a heavy reliance on tying arrangements. This device allows officials to argue that aid funds are also acting as a domestic economic catalyst, as a countercyclical device to fight short-term recession as well as a device to boost exports. The validity of these claims will be examined later in this chapter as well as in the case study of the Aid/Trade facility in the next chapter.

Cold War themes have been quietly dropped, although a "strong link" continues to be asserted in official statements between the level and quality of aid and the prospects for stability in the Third World. While humanitarianism remains a consistent strand among the "professed" motives of Canadian largesse, the most noticeable shift in official rhetoric has been towards an espousal of the legitimate pursuit of national economic interest via the aid programme. This "instrumental" motive is, however, presented as being complementary to the "professed" goal of global solidarity and development by extolling the benefits of mutual interest in an increasingly interdependent world. In this view, Canada must pursue an "enlightened internationalism" and recognise "that she has a vested interest in the most practical dollars and cents terms in ensuring [LDC] survival because they are tomorrow's markets." <1> This ethic is now boldly asserted:

I have no hesitation in saying that Canada's national self-interest is the major determinant of our foreign policy. We are involved in the North-South dialogue -- and will continue to be so -- precisely because we believe it important for our self-interest. (MacGuigan, 1983: 198)

In sum, this section has emphasised the mix of motives underlying the Canadian aid programme. Although Canada has on occasion used foreign aid to achieve political objectives (in Southern Africa and in the Malaysian crisis of 1965, for example), the Canadian programme is generally non-ideological. While humanitarianism has never been an overriding concern of the programme, the intangible and neglected motive of international prestige is probably of greater importance than commonly appreciated. This latter issue of Canada's international status highlights the role that foreign aid plays in Canada's wider foreign policies.

2. The Foreign Policy Setting of the Aid Programme: From Honest Broker to Parochialism

An understanding of the evolving "shape" of a donor's aid programme and of the aid policy-making process requires a broader examination of the donor's typical foreign policy preoccupations and behavior. A nation's conception of its role in the international system is an important attribute influencing its foreign policy behaviour and the range of objectives it is likely to pursue through the instrument of foreign aid. (Holsti, 1977: 360-363)

In a recent study of Canadian foreign policy, Dewitt and Kirton (1983) list seven attributes which shape a nation's conception of its foreign policy. These are rank, activity, association,

approach to world order, and the relative significance of external, societal and governmental forces. In terms of rank, Canada is one of the most significant of the middle powers -- at least if economic strength is viewed as the most significant determinant of rank. (Helleiner, 1984: 25) While its approach to world order has generally been supportive of the status quo, Canada has also traditionally favoured multilateral channels of diplomatic activity and strong international institutions for the resolution of conflict and the promotion of global development.

In terms of societal forces, a nation's domestic environment, its geography, resources, economy, ethnic and cultural mosaic, and its history, all combine to produce a domestic political culture that will, in turn, create a deep impression upon the substance of that same nation's foreign policy. As Lester Pearson once observed, "foreign policy after all, is simply domestic policy with its hat on." In Canada, the political culture of foreign policy is characterised by:

distrust of dogma and the doctrinaire, fear of extremes, suspicion of the rhetoric of grand design, respect for diversity and its power as the engine of politics, anticipation of conflict, belief in compromise, preoccupation with the limits of the possible, concern with process, and dedication ultimately to the pragmatic. (Stairs, 1982: 685).

As a North American nation, initially somewhat separated from the hub of European politics, Canada early developed a "voluntarist tradition" in its foreign policy. (Hockin, 1978) This voluntarism is, in essence, "the search for moral opportunity" in international politics. As such, Canada has broadly rejected a Hobbesian conception of world politics.

The explanation for this essentially benign conception of

international affairs can be explained by factors such as Canada's prosperity, its distance from Europe, its stable government, ordered and generally peaceful society, its Protestant conscience and, importantly, its ambitions (for prestige and status) in the international arena. Moreover, there is in Canada a non-military ethos (beyond a somewhat reticent acceptance of the necessity of the NATO security umbrella) and an absence of colonialism. In the international arena the expression of these constants has been the advocacy of a need for global order and material prosperity. In Hockin's view,

this voluntary streak...seems to have been the foundation of most of what has been creative in Canadian foreign policy. It was based upon a tremendous faith in the possible results of sensitivity, good will, good intentions and hard work. If there was a Canadian prescription for the international system, then it seemed to be to inculcate each participant in the system with a similar faith." (Hockin, 1978: 87)

In the heyday of its diplomatic assertiveness (at the close of the Second World War, when Canada was considered a minor great power), the international image of "bridge-builder" and "honest broker" developed as a result of active Canadian policies in the United Nations, NATO, and the Commonwealth. This mediatory and internationalist approach to world politics continues (albeit more muted in intensity) to be a significant aspect of Canadian foreign policy. (Hockin: 91) Indeed, "in purely quantitative terms, Canada is one of the most active states in the international system with regard both to volume of foreign policy actions initiated and the number of different targets addressed. (Raymond, 1983: 155)

While consensus exists on the broad parameters of Canadian

foreign policy, scholars differ, however, in their delineation of the overall 'character' of that policy. Broadly speaking, three contending approaches have been discerned. They are: (a) Liberal Internationalism; (b) Peripheral Dependence; and (c) Complex neo-Realism. (Dewitt and Kirton, 1983) Each approach offers insights into the nature of policy at different periods, although it is the argument of Dewitt and Kirton that Complex neo-Realism is the approach that best explains Canada's current place in the international system and the style of its foreign policy.

Liberal internationalism is grounded in the postwar concept of functionalism -- a concept developed in the seminal writings of David Mitrany. This approach views Canada's role as

a committed internationalist nation, distinguished by its diligent pursuit of values largely shared by the world community. As a middle power with medium strength, Canada, in this portrait, has rarely exercised its power against others in its pursuit of direct national advantage. Rather, acting as a skilled diplomat, it has played an active, responsible, and influential part in a multitude of global issues, developing harmonious, effective and expansive ties with states of similar strength and common political tradition. And in keeping with the values of contemporary liberalism, Canada has pursued the central purpose of steadily constructing a more curable and just international order for all. (Dewitt and Kirton, 1983: 13)

This approach, when applied to the governmental process, predicts rational decision-making, functional flexibility and the prominence of the Department of External Affairs (DEA). Liberal internationalism flourished most clearly during the 1950s in addition to elements of peripheral dependence. The former element was clearly evident in Canada's growing activity in multilateral fora, while an element of peripheral dependence may have been

reflected in the Canadian willingness to follow the policy interests of more powerful allies. In the context of the aid programme, the perspective of peripheral dependence appears to offer a more plausible explanation of the Cold War preoccupations that informed Canada's early involvement in international development.

In the peripheral dependence model, Canada is portrayed as a small penetrated state with an underdeveloped resource-based domestic product, beholden to US capital and essentially reactive to US interests. At the level of government process, this approach assigns a limited, passive and compliant role to the state apparatus. The validity of this approach could only be demonstrated if it was established that the aid programme showed a marked geographic and volume concentration in countries perceived to be of strategic or political significance to the US or to the NATO alliance. Alternatively, it would need to be shown that Canadian aid was withheld from socialist recipients or countries hostile to the West.

While elements of peripheral dependence were present during the era of Pearsonian internationalism, a cursory glance at the record discredits these assumptions in the later periods of Canadian foreign policy. During the 1960s, in particular, there was a rapid diversification of the programme all over the globe. Moreover, Canada has on some occasions been willing to distance itself from its more powerful neighbour to the South, as the recent decision to curtail aid to US-backed Guatemala for alleged human rights violations demonstrates. (Bruneau, 1985: 14) In fairness, a much closer examination than the impressions given above would be needed to assess the degree to which aid to specific countries is curtailed or increased in compliance with the views of Canada's allies.

The final approach -- that of Complex neo-Realism -- portrays Canada, particularly since 1968, as an ascendant principal power in an increasingly diffuse, non-hegemonic international system. Canada during this phase has engaged in increasing bilateral activity, a competitive orientation and a diversification of its interests away from established powers. However, on the strength of the dramatic expansion of the ODA programme, throughout the 1960s and early 1970s, Dewitt and Kirton discern "a thrust towards globalism" from at least 1960. (1984: 39)

At the level of government process, this approach assigns an increasing role to domestic debates on foreign policy, which are indicative of increasing national capabilities. There would, at the same time, be an increasing role for interest groups, labour, media and business groups, at the expense, to some extent, of Parliament and the political parties. The emergence of this phase is reflected in this chapter's focus on the domestic sources of aid policy, the role of interest groups and the ineffectiveness of Parliament. Complex neo-Realism also predicts that decision-making within government will conform to the premises of the Bureaucratic Politics model, characterised by inter-departmental conflict and bargaining and a change in the balance of policy-making forces in favour of departments with a strong domestic constituency at the expense of the DEA. The ensuing discussion of the evolution of the institutional and decision-making processes connected with aid will bear out these theoretical expectations.

3. The Historical Development of Canada's Aid Programme

a. The Early Years: Internationalism and Containment, 1950-1968

For the first five years following the Second World War, Canada was without a formal programme, and it extended aid only via the United Nations Relief and Rehabilitation Agency (UNRRA). Canada's first involvement with aid began with the disbursement of some C\$3 million towards the Marshall Plan for European Recovery.

The first institutionalised foreign aid infrastructure for economic development in the Third World dates to 1950 when Canada became involved in the Colombo Plan. As a faithful partner in the US-led NATO alliance, Canada's motives under the Colombo Plan mirrored the strategic and ideological preoccupations of the West at this time. The coincidence of two principal motives formed the basis of Canada's programme, which was launched "with virtually no policy beyond a lively anti-Communism and a vision of a free and multi-racial Commonwealth." (Spicer, 1966: 52) The second of these motives reflected Canada's search for moral opportunity as well as, no doubt, an opportunity to enhance its international prestige. Lester Pearson had played an important personal role in bringing an initially suspicious India into the newly-born Commonwealth, and he was to argue persuasively that the forum be transformed into a multi-racial arena rather than remain a white-dominated institution.

As to the first, and arguably overriding, security motive, Pearson warned the Canadian House of Commons, at the time of the Colombo conference in 1950, that "if South East Asia is not to be conquered by Communism, we of the free democratic world must

demonstrate that it is we and not the Russians who stand for national liberation and social progress."(Freeman,1978: 38)

Similarly, Diefenbaker argued that

\$50 million a year...would be cheap insurance for Canada, for the opinion of the Asian representatives was that this plan would do much to halt Communism in Asia.(Spicer,1966: 23)

Pearson was certainly under no illusions about the true reasons for Canada's sudden largesse when he suggested that

we should ask ourselves from time to time whether we would be doing what we are if the political and military menace of Soviet and Chinese Communism did not exist....it is a sorry commentary on the post-war period that without [the Communists] and the threat that they represent we might not so readily have done what we should be doing anyway. (Spicer,1966: 22)

From 1950 to 1965, approximately 90% of Canada's aid was directed to the Commonwealth, the first area of concentration being South Asia, to be followed by a second area of concentration in the Caribbean from 1958.

In sum, the initial stimulus for Canada's involvement in foreign aid owed more to its preoccupations with Cold War anxieties and its peripheral position in the US-led alliance of western powers, than to purely altruistic concern for the needs of the greater part of humanity.

b. The Trudeau Era: North-South Rhetoric and the Emergence of Commercial Objectives

The period succeeding this phase of Pearsonian internationalism was marked by the growing intrusion of domestic concerns into the

foreign policy agenda as matters of "low politics" (energy, investment, employment, etc.) began to take precedence over issues of high politics. This "domestication" of the foreign policy agenda and process coincides with the Trudeau era, the change of direction reflecting, to a considerable extent, the stamp of Prime Minister Trudeau's personal philosophy and domestic political preoccupations.

The domestication of the foreign policy agenda did not, however, lead to a decline in Canada's foreign aid efforts. On the contrary, the Trudeau era saw a rapid expansion in the volume and geographic dispersal of aid as one expression of Canada's emergence as a "principal power." However, an equally important reason for this sudden increase in Canadian aid-giving was the issue of Canada's national identity -- an identity which, during the late 1960s and 1970s, was being increasingly threatened by the province of Quebec.

The tensions that had emerged in Confederation meant that the cardinal preoccupation of Trudeau's first two administrations was the issue of national unity. Although far less of an internationalist than Lester Pearson, Trudeau was passionately opposed to the excesses of nationalism which as a political force threatened the peace of the world.(Thordarson,1972) Unlike Pearson, however, Trudeau did not denigrate the sovereign state as an outmoded anachronism. Rather, in the Canadian context, Trudeau conceived of the state as a creative and positive force whose task it should be to forge a truly Canadian unity such that

no group within the nation feels that its vital interests could be better preserved by withdrawing from the nation than from staying within.(in Thordarson,1972: 61)

The impress of this overarching imperative was to permeate all levels of domestic and foreign policy issues. Two other axioms also

formed reference points for the conduct of government, namely, a belief in the positive potential of cultural dualism and ethnic pluralism, and an affirmation of federalism. The diffusion of this preoccupation with national unity into the aid programme became all the more pressing as the rift between Ottawa and a rebellious Quebec began to find expression in the international arena. With the support of a nationalist France eager to extend French influence and "rayonnement," Quebec sought to establish an independent presence in its relationships with France and la francophonie. An early example of this drive for an independent status for Quebec surfaced at the first meeting of the Agency for Cultural and Technical Cooperation, held in Niamey, Niger, in 1970. Although Ottawa was able on this occasion to preempt the Quebec initiative, the federal authorities were sufficiently disturbed by the potential implications of such initiatives that they sought preventive action to thwart any similar attempts by Quebec in the future. It is probably no exaggeration to suggest that the future of the Federation would have been called into question had Quebec been successful in establishing an independent base for itself internationally. Since much of Quebec's energies were directed at la francophonie, Ottawa acted to steal its thunder and undermine its appeal to the West African nations by rapidly expanding its programme of foreign aid to these states. Henceforth, ODA allocations to francophone and anglophone Africa were kept scrupulously equal as the visible expression of the bicultural nature of Canada itself.

The importance of assuaging a recalcitrant and defiant Quebec may also have found expression in the hierarchy of CIDA itself. Arguably, it has been no accident that there have been three francophone Quebecers among former CIDA Presidents. (R. Miller,

personal communication)

Almost upon entering office, Trudeau instituted a major foreign policy review. Trudeau himself is said to have taken a keen interest in the formulation of this review. Over two years in the making, the final product entitled "Foreign Policy for Canadians" placed a much greater emphasis on the economic aspects of Canada's foreign policy than hitherto. The review echoed Trudeau's belief that external activities should be more consciously directed towards the fundamental national interest of unity and identity.

A two-tier ranking of Canada's priorities demonstrated this shift in emphasis. On the first rung were located the largely domestic issues of economic growth, social justice, and quality of life. On the second rung were placed more obviously international concerns such as global peace, sovereignty and independence. This document marked, in other words, some retrenchment from Pearsonian internationalism.

The intrusion of commercial objectives into the aid programme appears to have been moderated somewhat by Trudeau's own interest in international development and his conviction that North-South issues were of more importance than defending the West against Communism. He put great emphasis on creating "an equitable distribution, worldwide, of resources and opportunities ..." and felt that the "role of leadership today is to encourage the embrace of a global ethic." (Trudeau, 1975) Foreign aid was a consistent theme in his speeches and there is no doubt that, in terms of volume, the Trudeau government did attempt to live up to its reputation since, during the first administration in particular, there was a marked expansion of the volume and geographical scope of the aid programme. Indeed, Canada was one of the few DAC members that was actively expanding

its programme during the late 1960s and 1970s.

An index of the "professed" commitment of the Trudeau administration was the inclusion of the theme of international development as a separate booklet in the foreign policy review. In addition to a commitment to increase the volume of ODA, the review also expressed the government's intention to (a) reduce the tied aid component to a ceiling of 80% of the total programme, and (b) increase the proportion of multilateral aid by 5-10% over five years in order to increase its total contribution to 25% of the total ODA programme. Finally, the government undertook to finance the establishment of an International Development Research Centre (IDRC).

There were, however, limits to Canadian benevolence, and Trudeau frankly admitted that Canada could not afford to devote the UN-recommended figure of 1% of its GNP to international development. Critics, however, referred to even the 20% untying concession, which was made at this time, as a "shabby" token, given Ottawa's recognition that tied aid does inflict costs on the recipient. (G.K. Helleiner, Behind the Headlines, August, 1970).

It is difficult to arrive at a summary conclusion on the impact of the Trudeau years on international development issues in Canada. On the one hand, Trudeau himself was an active spokesman on Third World issues as is evident, for example, in his efforts as co-chairman at the Meeting on Cooperation and Development at Cancun in Mexico in 1982. On the other hand, Canada continued to display recalcitrance on the issue of tied aid and was either unprepared or unable to implement the basic human needs strategy that it adopted officially in 1975. Beyond a significant rise in the volume of aid, the substance of the programme appears not to have altered

substantially. One observer has portrayed Trudeau's personal interest in international development as "quixotic" and unsustained. (Morrison, 1985) The same judgement might be applied to the aid programme as a whole during these years.

c. The Mulroney Administration:
Aid, Trade and the Agenda for Economic Renewal

The Conservative party, led by Brian Mulroney, entered office after a sweeping victory in the federal election of 4 September 1984. Although one acerbic opinion has suggested that the new administration is "not a government that generates much excitement,"^{<2>} the Tories have expanded on themes that had begun to preoccupy the final Trudeau administration. On issues such as Canada's trade policies towards the Third World and international development, the new administration has shown continuity rather than radical change in policy direction.

The major preoccupation of the new government has been, of course, the effort to extend and deepen Canada's economic links with the United States. This priority is also the keystone of a broader "Agenda of Economic Renewal" (1984). Three related concerns linked to this agenda are: (a) the need to expand employment opportunities; (b) the importance of stimulating investment and ensuring financial stability by reducing the capital account deficit; and (c) the imperative of promoting the expansion of Canadian exports into new markets -- many of which are potentially located in the Third World. (North-South Institute, 1985: 1) The issue of export promotion will be examined in more detail in the next chapter. At this stage, an impression of the overall thrust of the new administration's external preoccupations is gained from the views of the current

External Affairs Minister, Joe Clark, who, in his first press briefing after entering office, announced that "Canada's foreign policy under the new Conservative government will place a very high emphasis on international trade." (Ottawa Citizen, 18.9.1984)

The Trade and Development Facility, as one expression of the new orientation, involves the diversion of aid funds towards the task of export promotion. However, the Tories are also resolved to slow down the projected increase in ODA commitments undertaken by the outgoing Liberals. The previous commitment was to increase Canadian ODA to 0.7% of GNP by 1990. Although Prime Minister Mulroney and External Affairs Minister Clark initially endorsed this commitment, the Tories appear to have subsequently taken note of a Business Council on National Issues (BCNI) report, which argued that a deficit reduction of \$500 million per year was possible if the ODA programme remained limited to its present ratio of 0.42% of GNP. The Department of Finance then undertook a survey of cost-cutting options in preparation for Finance Minister Michael Wilson's economic statement of November 8 1984. The Tories have now put back the ODA target to 0.6% of GNP by 1990, with the elusive 0.7% now receding into the distance of 1995. The "saving" for the next fiscal year from this pruning of the aid programme is projected to be \$180 million. (Morrison, 1985: 6) The government has since gone on to reduce CIDA's allocation by \$230 million in two successive stages. (Toronto Star, 28.5.1985)

It is perhaps surprising, given the government's commitment to reduce the federal budget, that deeper inroads have not been made into the ODA "envelope". It has been argued that the ODA targets have remained more or less intact only because the "shape" of the programme is being altered in the direction of commercial, rather

than exclusively developmental, goals. (Rudner, 1985: 128)

The future of the Canadian aid programme under the Conservative party remains uncertain. There are likely to be further budgetary cut-backs although it is by no means certain that this will mean a further erosion of development objectives. The influence of three progressive internationalists in the current administration (Flora MacDonald, Douglas Roche and Joe Clark) may be enough to limit the encroachment of commercial objectives in the programme.

4. The Domestic Sources of Canadian Aid Policy

The previous section has emphasised the gradual shift towards a more "domesticated" foreign policy and the emergence of an era of Complex neo-Realism. Because the number of inputs into the foreign policy process has grown in recent years, it will be necessary in this section to direct attention to a wider range of policy-making players by assessing the relative influence of a variety of government departments and societal interest groups involved in the policy process. A further area of investigation will be the nature of the links between federal government and societal pressure groups, as well as the impact of Parliament, the Prime Minister and key Cabinet figures, media, labour and the provincial governments. Special attention will be given to the domestically oriented departments which might be expected to carry extra weight in policy-making, as well as to those coordinative structures responsible for conceiving and implementing the national interest. (Dewitt and Kirton, 1983: 16)

a. The Divided-Self:
The Institutional Setting of the Aid Programme

The management and policy-making machinery of Canada's aid programme has always been something of a divided self. The programme has been consistently hampered by a confusion of objectives, a plethora of interested and competitive players, the absence of a career service structure and, perhaps most damagingly, general disinterest in the topic in both Cabinet and Parliament.

Consonant with Dewitt and Kirton's conception of Liberal Internationalism, the early years of the programme were dominated by the Department of External Affairs (DEA), which assumed overall jurisdiction for policy direction. The other major player at this stage was the Department of Trade and Commerce, which assumed administrative responsibilities. However, the Department of Finance was also inevitably involved, by virtue of its responsibilities for budgeting. Thus, even at this early stage, "intrinsic differences in outlook and aspiration divided these ministries, and led each to retard or complicate the work of the other two." (Spicer, 1966: 105)

Until 1960, aid did not form a distinctive and separate part of the official foreign policy system. The first institutional structure was the creation of the International Economic and Technical Co-operation Division (IETCD) which laid the basis for the administrative infrastructure for the programme. At this stage, it performed a largely coordinative role in a decentralised system.

Spicer appears to lay much of the blame for the aid programme's later administrative morass on the absence of political will during the 1950s to develop a clear blueprint for the objectives and priorities of Canada's involvement in international development. As he puts it, "fatally, this persistent myopia was bound to undermine

the aid administration. Called to execute shadowy policies, civil servants could do little more than stumble hopefully from budget to budget." (Spicer, 1966: 103)

b. CIDA's Organisational Constraints

It was not until 1968 that foreign aid finally came of age as a distinct component of the Canadian foreign policy system. At this point, the External Aid Office was transformed into the Canadian International Development Agency (CIDA). The agency is officially under the purview of the Secretary of State for External Affairs and, more immediately, the Minister of External Relations -- currently Monique Vezina. While CIDA is the only government body with an exclusive interest in aid and development, it remains a weak and defensive agency with little political clout in the policy-making nexus. For example, while CIDA has for some years argued that the ODA programme should be streamlined and concentrated on a few recipients as is the Swedish programme, its views have not been heeded, and competing pressures -- political and economic -- make this unlikely as a policy option. (Anglin, 1984: 181)

CIDA's difficulties stem, in part, from the fact that it lacks the status of a government department and, except for a brief period during the Clark administration, has had no separate minister to represent it in cabinet. CIDA's position in the aid policy-making process is essentially that of a minor and dependent player. Senior and more powerful domestically oriented departments, such as the Treasury Board, Finance and IT&C, have been the key players, along with DEA (despite the fact that even by 1975 CIDA was already

spending five times as much as DEA).

A portrait of the agency's "personality" reveals a vulnerable and dependent organisation, lacking effective autonomy and rarely prepared to advance initiatives likely to be opposed by the prevailing consensus in Ottawa. As an agency, CIDA's imposed and accepted task has been to implement and not to reason why. As a platform for the advancement of Third World interests, it has been singularly ineffective.

The reasons for this organisational passivity stem from an absence of effective autonomy over day to day practice. The web of regulations within which CIDA operates are imposed by outside departments with limited understanding of the complexities of CIDA's role. The agency is subject to Treasury Board financial controls and guidelines on project evaluation; Public Service Commission regulations on hiring and employment; Department of Supply and Services procurement rules; and External Affairs control on Canadian Missions abroad. In the view of Erhardt(1983), the pressure to conform to general government regulations has become more intense since the late 1970s in the wake of highly critical reports on CIDA's financial operations by the Auditor General in 1976. As a result, the agency's privilege to carry unspent funds from one year to the next was completely revoked and "since that time, the reflex action of the government to criticism of the aid programme has been to tighten control."(Erhardt,1983: 110)

The overall mood of the agency then is one of defence: defending its record on development while at the same time striving to survive as an agency by underlining its efforts to promote Canadian exports. Sensitivity to criticism is also evident in the agency's reluctance to provide easy access to information. CIDA still lacks a continuous

evaluation mechanism and has been consistently reluctant to make project or organisational evaluations public. This expression of institutional vulnerability is, however, damaging to any informed public debate.<3>

As an agency, CIDA exhibits many of the organisational constraints discussed in chapter II, which serve to undermine the effective delivery of programmes and projects. Consistent with the findings of Tendler(1975), the chief obstacle to the implementation of labour-intensive social welfare and rural development programmes has been the pervasive presence of the "money-moving" syndrome.(Erhardt,1983; Bruneau et al,1978) The pressure to move money is compounded by a recent Auditor General's regulation that unspent funds will lapse rather than be carried over to subsequent years. The new regulation creates special difficulties in the case of small-scale labour intensive projects, which require long gestation periods in planning and administration before they are ready to be implemented. As a result, this type of project often leads to delays in the disbursement of allocated country budgets. Consequently, the new regulations are likely to act as a disincentive to officers interested in planning innovative Basic Human Needs projects. As Erhardt puts it, there is "no pay-off for innovation when progress is measured by the quantity of disbursements."(1983: 112) In this working environment, caution and risk avoidance have become the hallmarks of the CIDA desk officer's mentality.

Inadequate staffing levels and an overly centralised administrative structure have also militated against innovation and the sensitive monitoring of trends, needs, and liason with the recipient. For example, over 300 of the staff in the bilateral

programme are stationed in Ottawa, with only 50 persons working abroad at any one time. On the average, officers at CIDA headquarters spend less than one month in the field for every 11 in Canada. The India and Nepal desk in CIDA is composed of a mere 8 officers who, in fiscal year 1982/83, were responsible for disbursing over \$50 million for India and nearly \$7.5 million for Nepal. In the case of India, it was frankly admitted that a major stimulus for the CIDA initiative in the parallel financing arrangement for the Chamara project (to be examined in Chapter VI) was that it would ease the administrative burden of managing a large number of time consuming small-scale projects. With the Chamara hydro project, much of the annual ODA provision for India could be accounted for over a number of years in a single mega-project for which much of the administrative responsibility would rest with the Export Development Corporation (EDC).<4>

Even when in the field, officers are likely to be so overwhelmed with administrative duties and with trouble shooting on current projects that they have little time to provide inputs into the planning process. In Bangladesh, for example, where Canada is the second largest food aid donor, the Canadian team must rely on other donors, such as the US and World Bank, to keep them abreast of fluctuations in food supply and impending food crises.(Erhardt,1983: 116)

Another problem is the rapid turn-over of personnel, which effectively militates against the emergence of officers with knowledge and experience of a specific country and with good contacts with other donors, recipient governments or Canadian NGOs working in the field. Moreover, the promotion structure within CIDA appears to be based on gaining lateral experience at a number of

desks before moving out of the country desks and into middle-management. The incentive structure for the aspiring officer is quite simply to move money and move on.

Organisational constraints have also influenced tying levels. As noted earlier, in 1970 the Treasury Board authorised that up to 20% of the ODA budget could be untied. Since this is an overall figure, some flexibility does exist to allow planners to exceed this limit occasionally -- a consideration that would be appropriate in the case of the poorest countries (LLDCs). Erhardt demonstrates, however, that even in the archetypal LLDC -- Bangladesh -- the 20% untying level had not even been attained, never mind exceeded. This suggests that tying is more than just a legal constraint -- it has become a standard operating procedure in the face of pressures to move money and the lack of adequate staffing levels.

Recently, efforts have been made to improve CIDA's organisational efficiency by adopting a country focus in which the various facets of the programme (bilateral, multilateral and NGO) are all considered together. This integration has, however, occurred at the same time as the addition of new tasks for the agency. This began with the creation of an Institutional Cooperation division which was followed in 1984 with a Business Cooperation Branch. This unit will spearhead CIDA's efforts to support Canadian firms seeking opportunities for investment, joint ventures and the transfer of technology to these markets. Both divisions offer pre-feasibility studies and up to \$250,000 to cover technology testing related to joint ventures. Pre-feasibility studies are also available for firms bidding for tenders from the lucrative international development banks.

Finally, there is a good deal of substance to charges of

administrative delay. It takes an average of 26 to 28 months to proceed from the stage of project proposal to its final approval -- this before implementation even begins! The reason for these delays is a complex four-stage appraisal process via a series of different committees. Astonishingly, the reviews are carried out consecutively rather than simultaneously. This appraisal process further illustrates the extent to which CIDA budgeting is tightly controlled by the Treasury Board.

To sum up, this section has shown that the administrative structures in CIDA act unwittingly as a constraint that inhibits the agency's ability to develop a creative, flexible and innovative approach to project implementation, and reinforce an already strong predilection for capital-intensive and large-scale projects at the expense of smaller-scale, poverty oriented projects. Paradoxically, the current organisational environment of the agency precludes any likelihood of creating an aid agency responsive to the needs of the poorest sectors of recipient states.

c. Bureaucratic Politics

The core premises of the Bureaucratic Politics model are that the players in the policy process are competitive and that decisions emerge not from a unified and rational actor but by a process of conflict, bargaining and compromise among players with divergent interests. The position a player adopts on any given issue is shaped less by rationality and more by a combination of personal ambition and the need to advance the interests of the organisation and of the wider civilian constituency he or she represents. (Allison, 1969: 146)

The Bureaucratic Politics (BP) model was developed with

reference to the US system of presidential government. The most obvious objection to its use in Canada is that the impact of BP on policy outcomes would be vitiated by the greater degree of centralised and "consensual" cabinet decision-making. (Stairs, 1976: 185-186) Nossal (1979) questions this assumption and argues the case for a distinct, though more muted, version of BP in the Canadian context. He is able to do so by shifting his definitional focus away from "endemic conflict" to the recognition that policy is the product of interchange among players. As he sees it, the magnitude of any differences about policy are less important than their resolution. Thus, compromise may be as much an indication that BP has preceded a decision as would be the presence of conflict among entrenched positions.

The "domestication" of the foreign policy process led to the decline of the Department of External Affairs as the instrument with exclusive jurisdiction over the policy process. During the Trudeau era, the input from domestically oriented departments, such as IT&C, increased the complexity and fragmentation of the policy-making process. In addition to an increase in the number of policy-making departmental players, the Trudeau era also saw the proliferation of standing or ad hoc interdepartmental committees. The same administration introduced the practice of having senior civil servants attend Cabinet meetings, while the Cabinet's committee system was itself restructured to allow for greater ministerial involvement and comment. Two other centres of policy making also greatly expanded their role during the Trudeau era, namely, the Privy Council Office (PCO) and the Prime Minister's Office (PMO).

One problem with this collegial approach to decision-making was that Cabinet did not directly consider foreign aid policy but

devolved responsibility to interdepartmental committees, such as the Interdepartmental Committee on Development Assistance (ICDA) and the Interdepartmental Committee on External Relations (ICERDC). The main players on these committees were External Affairs, Finance, Treasury Board and IT&C and each brought its own perspective to decision-making. DEA focussed on political motives, and wanted to influence recipients to adopt policies favourable to Canada. Agriculture represented farmers and wanted food aid to protect their interests while furthering its own status. The Treasury Board Secretariat was responsible for the approval of contracts, projects and staffing, and sought to ensure that the aid programme conformed to the administrative standards applicable to the rest of the federal government. IT&C represented business interests and the industrial sector. Finance, with its overarching responsibility for macro-economic planning, was concerned that aid should complement its planning priorities. (Wyse, 1983: 26) Finally, CIDA represented, in theory at least, the interests of the Third World.<5>

While the variety of players and interests made for conflict, policy, in point of fact, often emerged as consensus and compromise -- the participants working to meet Trudeau's injunction on consensual decision-making. Compromise meant in practice that the aid programme continued to pursue the same set of mixed objectives as before. In other instances, individual interests, such as the Department of Agriculture, were able to resist decisions which would have rationalised the programme. One such option would have been to integrate the food aid and non-food aid components of the programme. Agriculture resisted this initiative because it found that a separate food aid tranche simplified marketing and reduced pressure to find commercial markets by providing a stable component of

demand. A separate food aid budget also helped to uphold the department's image as a friend of the farmer. (Wyse, op.cit: 15)

In addition to formal departments, Parliament is a potential source of influence and debate on aid policy. Aid, however, lacks a political constituency in Canada to an even greater extent than in other donor nations and this is apparent in the low level of interest in, and knowledge of, development issues among MPs. Hardly a reference to foreign aid is to be found in the average month of parliamentary debate. The only watchdog forum of any note has been the Standing Committee on External Affairs and National Defence (SCEAND) and its sub-committee on international development. Even here, however, the level of interest has fluctuated over the years. For a period under the Liberals the sub-committee was fairly strong, with a committed cadre of about 25 knowledgeable MPs. The chief product of this period was a publication by the Task Force on North-South Relations. The major recommendations of this objectively critical document were not, however, even debated, let alone implemented. The fate of the Task Force report underlines the absence of influence on the part of parliamentary committees. The committees are intended to be advisory and watchdog bodies and have no policy-making powers. According to one participant, one of the major problems with the sub-committee is the high turnover of personnel, a phenomenon due in part to the very high electoral turnover of MPs. (Robert Miller, personal communication)

This section has emphasised that a milder form of Bureaucratic Politics -- one based on compromise rather than endemic conflict-- has, indeed, been operative in Ottawa, especially during the Trudeau era. Given the variety of governmental and societal interests involved with the foreign aid programme, the BP model is a useful

theoretical framework for an analysis of aid policy-making.

d. The Development Lobby

Turning now to policy influences outside the sphere of government, an examination of the role of public interest groups reveals the presence of two distinct and diametrically opposed lobby groups: the development lobby and corporate interests. It has been suggested that government has reacted to each of these two groups in very different ways, the pattern of response revealing a distinctive bias towards the corporate sector. (Pratt, 1984)

The main external support for the promotion of developmental and humanitarian objectives of the aid programme has come from a plethora of non-governmental organisations (NGOs), which actively initiate labour-intensive projects biased in favour of basic human needs, education and famine relief. Many of these groups rely for the major part of their funding on CIDA grants, which may in part account for their lack of assertiveness in criticism of the evolving shape of the aid programme. Much of the critical debate has been left to independent research organisations, such as the North-South Institute, though informed and objective criticism has often fallen on apparently deaf government ears.

A further reason for the inability of the development lobby to safeguard or advance Third World interests has been the subtle response of government itself. Officials in the DEA, for example, have developed strategies and tactics that effectively defuse or simply bypass the arguments of the pro-Third World lobby. Among the variety of techniques employed are: pro-forma consultations, encouragement to register views in harmless parliamentary committees

(SCEAND, for example); the formation of government organised NGOs -- (GONGOs!) -- in which the chairman and members are handpicked by government; and, finally, "controlled consultation" in which the agenda and parameters of discussion are pre-set by DEA officials. (Pratt, 1982: 82-84) These techniques are, in essence, forms of non-decision-making that allows government to maintain its legitimacy as responsive to public opinion and concerned with international issues while pragmatically pursuing policies of an altogether different cast.

An early, and still current, example of a "gongo" was the creation of the Canadian Council on International Cooperation (CCIC). This body grew out of a process begun as early as 1967 by the foreign aid bureaucracy to organise networks of public participation and education. CCIC was conceived as an umbrella organisation to coordinate the NGO community and improve channels of communication between CIDA and the NGO sector. Trudeau's intention in creating bodies of this type was to reinforce rather than counter executive leadership. However, once CCIC began to advance positions radically different from CIDA's, its funding was drastically reduced by CIDA which subsequently moved its support to a new "gongo" -- the Futures Secretariat. (Dansereau, 1985: 27)

e. Commercial Interests

In marked contrast to official Ottawa's treatment of developmentally oriented groups, Pratt emphasises the semi-formal procedures and structures that have been established to encourage the flow of inputs from the business community. He notes, for example, that key industries were consulted and involved in the

development of Canadian positions on the New International Economic Order (NIEO). Permanent business groups on international trade have also been created which liaise intimately with government.

In addition to the autonomous initiatives of government itself, there is no doubt that the corporate sector has sought to influence public policy on trade issues. These efforts have in some instances been successful as the reimposition of a leather footwear quota in July 1982 amply demonstrates. (Litvak, 1982: 34)

Two powerful trade lobby groups have been influential in matters relating to the aid programme. They are the Canadian Exporters Association (CEA) and the Canadian Manufacturers Export Association (CMEA). The former has been influential since at least 1967, when the first CIDA President, Maurice Strong encouraged the CEA to form a committee on ODA; the committee meets annually with CIDA officials to forge closer links between the aid programme and industry.

The recent debate on the aid/trade mechanism emphasises the potential of the corporate sector to influence, or at least reinforce, government policy discussion. Groups such as the Export Trade Development Board (ETDB) submitted responses to the government's consultation paper on export financing (1985). The ETDB argued for an expansion of the state's involvement in trade promotion initiatives, for a relaxation of EDC credit worthiness standards, and for a reduction of EDC exposure fees charged to potential exporters. The submission heartily supported the proposed aid/trade mechanism and urged government to redirect Canadian ODA in the direction of the bilateral programme (which would be of more immediate benefit to domestic exporters), and to reduce commitments to multilateral organisations in which Canada has had a poor record in competitive bidding. (ETDB, 1985)

Additionally, interviews with officials in CIDA confirm an initial impression that the CEA has been influential and vociferous in arguing for a more cohesive and efficient mechanism within CIDA to respond to needs of the private sector. (Marilyn Cayer, personal communication). The net result of this effort was the creation of the Business Cooperation unit in CIDA in 1984. Interviews with CIDA personnel suggest that some of the agency's most able personnel have been transferred to this unit which is headed by CIDA's Vice-President. As noted earlier, the annual allocations to this unit have risen dramatically from \$27 million in 1984/85 to a projected \$45 million for 1986/87. These developments reinforce the hearsay impression that the Business Cooperation unit has become the nerve centre of CIDA's activities.

f. Labour

For fullness of treatment the views of the Canadian labour movement need to be considered. In theory, labour is likely to be affected by, and therefore interested in, policy issues such as changing tied aid levels, proportions of bilateral aid and the aid/trade initiative.

The Canadian Labour Congress (CLC) is the national spokesman for labour. Since the late 1970s, the labour movement has taken a strongly protectionist stance in its representations to government. Given high levels of unemployment and many sunset industries, this is hardly surprising. Pressure from export-oriented industries led the CLC to reverse its earlier stance advocating reduced trade barriers with the Third World. On occasion, unions have been prepared to join employers -- in the textile clothing sector, for

example. As such they are able to strengthen the arguments for protectionism by invoking the socially acceptable rationale of protecting jobs and communities. Given the CLC's position on trade issues it might be expected that they would be in favour of government policies that promote the trade developing potential of the aid programme.

Surprisingly, however, the CLC's response to the government's green paper, "Competitiveness and Security," continues to show considerable solidarity with Third World nations and support of efforts to reduce protectionism in the North. On the issue of aid, the CLC submission questions the continuing use of bilateral aid and by implication shows support for increasing commitments to the NGO sector. The CLC argues that no aid programme can really respond to the central issue of development -- which it sees as enabling people, not elites, to become producers -- unless it adopts a "people to people," or Basic Needs approach. (1985: 15)

The CLC position is thus compatible with the "developmentalists" who seek to limit the commercial trend in the aid programme. Yet, while the CLC is a body of considerably greater potential leverage than the aid NGOs, Thompson (1985) argues that Labour has had little substantive influence on any aspect of Canadian trade policy and its views have made no impression in reducing the continuing concentration on a capital-intensive aid strategy.

g. Applications

The BP model has been applied to an examination of the Canadian aid programme by Berry (1979), Steeves (1980), and Charlton (1983). Berry used the BP model to examine the genesis of the Strategy for

International Development Cooperation of 1975, which remains the only major aid policy statement to date.

Formally, Canadian aid policy continues to be governed by the guidelines of the Strategy. The document defines CIDA's role as follows:

The objective of the Canadian development assistance programme is to support the efforts of developing countries in fostering their economic growth and the evolution of their social systems in a way that will produce a wide distribution of the benefits of development among the populations of these countries, enhance the quality of life and improve the capacity of all sectors of their populations to participate in national development efforts. (SIDC, 1976: 9)

Berry's dissection of the Strategy paper illustrates the conservatism and incrementalism of bureaucratic planning. Much of the original stimulus for this re-examination of the aid programme and proposed change in the direction of Basic Human Needs came from the desk officers within CIDA. Berry, however, underlines the competing pressures from departments such as IT&C to redirect the programme along more commercial lines. Over three years in the making, the final document was shorn of much of its progressive and developmental thrust and was only saved from a more explicitly commercial bias by the personal interest of Prime Minister Trudeau himself. Few of the more progressive measures were adopted. The government, for example, subsequently reversed an earlier commitment to allow Third World manufacturers to compete with domestic firms for tenders in bilateral aid contracts.

With the benefit of hindsight, it is clear that the Strategy was no more than a pyrrhic victory for the development lobby, and the heady idealism of the mid-1970s has been replaced by the pragmatic

commercialism that IT&C had been arguing for from at least the early 1970s. (Linda Freeman, personal communication) From a cynical perspective, the Strategy demonstrated that "what passes for planning is frequently the projection of the familiar into the future." (Henry Kissinger, in Berry: 549)

Does the BP model apply to recent initiatives to commercialise the aid programme using mechanisms such as the aid/trade fund? A cursory examination of the evidence suggests not -- not even if Nossal's muted version involving compromise and concession, rather than conflict, is accepted. Interviews with policy-making officials in External Affairs, Finance, CIDA and EDC suggest that considerable consensus exists on the advantages of linking aid with trade promotion. While it is clear that Finance has been the driving force in forging this link, there appears to have been no resistance on the part of CIDA or EDC to the new tasks imposed on these agencies, nor any evidence of a power struggle between CIDA and EDC or CIDA and External Affairs for primacy in the management of Canada's associated financing mechanisms. There has, no doubt, for many years been a rivalry between DEA and CIDA on matters relating to international development. However, DEA has gained immeasurably in power and influence from the new commercial thrust in Canadian foreign policy; indeed, it has largely recovered the ground lost during the early part of the Trudeau era to such an extent that it now approaches the status of a super-ministry with an overarching coordinative function for Canada's international trade.

In defending the BP model, it might be argued that CIDA's apparent agreement with this new direction is simply the pragmatic recognition of its weakness as an agency, rather than a true reflection of the agency's position. This writer has, however, been

struck by the number of CIDA officials interviewed who are strongly in favour of a closer integration of aid and trade. This impression is supported by the fact that successive CIDA presidents, of whom the current incumbent, M. Catley-Carson, has been particularly vociferous, have argued that Canada needs an aid/trade mechanism. Ultimately, it is true that such a programme will help to bolster CIDA's weak domestic constituency. But, to the extent that the only agency specifically geared to defend developmental interests should assert such views, it is clear that consensus, rather than conflict or even compromise, has characterised the emergence of the new commercial thrust in Canada's foreign aid programme.

Conclusion

The purpose of this chapter has been twofold: to situate the aid programme within Canada's broader foreign policy orientations and behaviour, and to examine the mechanisms by which aid policy is produced. Attention has been directed to the national level and to those domestic economic and social forces that shape the substance of the programme. The evidence presented above underlines the salience of domestic factors in aid policy-making, and shows that, in the policy-process, the dice are heavily loaded in favour of the larger "domestically" oriented departments backed by a powerful set of export-lobby groups. The interconnectedness of the corporate sector and government has created in Ottawa a "corporate ideology". It is this ideological consensus, coupled with the absence of effective opposition, which has enabled the government to undertake a substantial reorientation of the aid programme in a more commercial direction.

An examination of the motives underpinning the Canadian aid programme revealed that, beyond an initial period when aid was used as an instrument in the fight against Communism, Canadian aid has been largely non-interventionist and devoid of overtly political motives. In this, Canada's programme differs markedly from the politicised nature of the US and some Nordic country programmes. However, the examination also found that the rhetoric of global solidarity and humanitarianism serves simply to legitimise the programme while it masks the pursuit of instrumental motives designed to benefit the domestic economy. More recently, self-interest has been consciously pursued as a legitimate policy goal with supposedly mutual benefits both for Canada and recipients. Finally, the examination also showed that the often neglected motives of international prestige and enhancement of national unity and identity were important themes underlying the expansion of the aid programme.

The analysis of the institutional setting of the aid programme demonstrated that the legacy of early administrative structures and the absence of policy direction continue to bedevil the programme. CIDA's role as the implementing instrument of the aid programme was examined largely in the context of its weakness as a policy-making organisation. Its organisational constraints have contributed to the continuing bias towards capital-intensive infrastructural projects and to the inability to implement a development strategy geared to the needs of the poorest groups in recipient states.

The BP model was found to be a useful analytical framework for the study of aid policy-making -- although in the Canadian context its effects tend to be more muted than has been observed elsewhere. The elements of BP in the context of aid policy include disinterest

in the topic in Parliament and Cabinet coupled with the ineffectiveness of parliamentary watchdog committees, whose existence is cosmetic, and whose impact on policy is virtually non-existent. The presence of BP is also evident in the shifting fortunes of the DEA when, in the 1970s, it was eclipsed by domestically oriented departments -- IT&C, Finance and Agriculture -- to be followed in the 1980s by its re-emergence as a central player in the foreign policy process by virtue of its coordinative function in Canada's trade promotional strategy.

Insofar as external inputs to the policy-making process are concerned, it was found that government differs markedly in its treatment of different interest groups. While the commercial sector has established strong links with a variety of government departments, the Third World lobby has been ineffective in defending the humanitarian and developmental aspects of the aid programme. This has, in part, been due to effective strategies developed by government to defuse and stall the initiatives of the Third World lobby.

Finally, while the BP model does provide a plausible explanation for some of the policy tensions of the programme, it does not appear to have been operative in the recent drift towards the commercialisation of the aid programme. Rather, the evidence suggests that initiatives such as the aid/trade fund have been marked by departmental consensus in place of compromise and conflict. It is to this issue of commercialisation that the study now turns.

FOOTNOTES

- <1> Allan MacEachen, Foreword to CIDA Annual Review 1982/83.
- <2> Robert Miller, Parliamentary Research Centre, personal communication.
- <3> One example of this reluctance to part with information was CIDA's response to a major World Bank study on the effectiveness of aid. While Canada contributed up to one third of the costs for this project, CIDA chose not to offer the editor -- Professor Robert Cassen -- any information regarding internal evaluations of specific CIDA projects. (Robert Miller, Parliamentary Centre for Foreign Affairs and Foreign Trade, personal communication).
- <4> Dick Gold, CIDA consultant (India desk), personal communication.
- <5> Subsequent chapters question a common sense view that CIDA is in the business of promoting the interests of the Third World. Both the current president, and numerous past presidents of CIDA have shown more concern with enhancing the agency's domestic legitimacy by improving its trade promoting potential, than with defending the interests of recipient states. See, for example, Margaret Catley-Carson, Aid, Trade and Manitoba (Hull: Canadian International Development Agency, 1984).

CHAPTER VI

COMMERCE OVER CONSCIENCE:
FOREIGN AID AND THE IMPERATIVE OF EXPORT PROMOTION

The primary purpose of this chapter is to present a detailed case study of recent Canadian initiatives to link the aid programme to a broader strategy of trade promotion as the basis of domestic economic renewal -- a process that has been referred to as the "commercialisation" of the foreign aid programme. The case study is also designed to elaborate on some of the issues introduced in earlier chapters: to give, for example, concrete expression to the policy process by examining the genesis of recent initiatives such as the aid/trade fund and other associated financing mechanisms. A political economy approach is adopted as the theoretical framework to explain recent changes in the shape of the aid programme, and attention is directed to those domestic and international economic factors which have propelled the Canadian state to adopt first defensive, and now aggressive, export trade promotional strategies. A comparative approach, briefly reviewing the practices of other donors, is used to place recent Canadian initiatives in an international context.

The case study also provides an opportunity to re-examine the debate between the competing paradigms of Realism and self-interest in a state-centric world, on the one hand, and the emergence of cooperative or rule-guided behavior in an interdependent world, on the other hand. By presenting the arguments for and against the use of export credits and the closer linkage of aid and trade, the chapter illuminates the opposing pressures faced by donor

governments between short-run domestic self-interest and the potentially harmful long-term repercussions of their actions for the global economy.

1. The Canadian Economy:
Structural Weakness and State Response

In common with other members of the "like-minded" group, Canada is an open economy with a relatively small domestic market. It continues to be heavily dependent on trade for economic growth. Of the seven countries that participate in the annual economic summits, Canada is the second most dependent on its export trade; in 1984, exports accounted for 30% of total GNP. This reliance on exports makes Canada especially vulnerable to fluctuations in the international economy. As a recent foreign policy statement from the Mulroney administration underlined, "we are economically secure only if we are internationally competitive."<1>

Although a developed market economy (DME) and the ninth largest industrial nation, Canada's economic profile bears some similarities to a typical Third World state. Firstly, the economy is heavily resource based, with traditional strength in mining, energy, forestry and agriculture. Secondly, the manufacturing sector is comparatively weak and accounts for only one-fifth of total output. This sector is also inefficient in some sectors and is now experiencing obsolescence and fierce competition from a number of newly industrialising countries (NICs) in traditional industries such as footwear and textiles. Moreover, the potential of the manufacturing sector has for many years been constrained by its "branch plant" character with 52% foreign [read US] ownership. (EIU, 1985: 14) Thirdly, in common with many of the LDCs,

Canadian trade is heavily concentrated on a few trading partners -- the USA alone accounts for approximately three-quarters of Canadian exports.

During the 1960s and 1970s the Canadian economy was growing and had an expanding labour force. The saturation point, however, appears to have been reached by the early 1970s. Unemployment then rose steadily in the wake of the 1973 oil crisis and 1975 recession, reaching 8.4% in 1978 and 'peaking' at 14% in March 1983 as the 1981-82 world recession took hold. While unemployment is now (1986) below 10% for the first time in several years, it remains a very serious problem, especially in the Atlantic provinces.

In addition to the spectre of unemployment, there are three other features illustrative of the weakness of the Canadian economy. The first weakness is the overreliance placed on Canada's resource-based industries, a traditional 'comparative advantage' which is now rapidly evaporating. (Hay, 1984; Wilkinson, 1984) This decline is, in part, a consequence of global oversupply and falling demand in some sectors, while in other cases the trend has been aided by new materials-saving technologies developed by Canada's major buyers. Additionally, a number of developing countries are now increasing their natural resource production and successfully competing against Canadian products. One index of the slump in the resource industries is the situation of the minerals sector, which was particularly badly hit by the 1982 recession. In that year the value produced from metal mining fell by 19%.<2>

The second defect in the domestic economy turns on the competitiveness of the exports sector which -- always weak in comparison with other OECD nations -- has declined significantly in recent years. One indicator of this declining competitiveness is

Canada's share of exports among the developed market economies (DMEs), which fell from 4.7% in 1980 to 3.8% in 1983.

A third area of economic concern is the conspicuous absence of a dynamic research and development programme in the new technologies that are likely to be a significant factor in shaping the domestic productivity and economic well-being of OECD nations in the future. These new technologies include microelectronics, bio-technologies and new materials. Expenditure on research and development gives some indication of a nation's potential economic competitiveness and, as Table VI.1 demonstrates, Canada's future prospects are not bright.

The broader implications of a failure to arrest this secular decline in Canada's competitiveness are serious, indeed. Beyond the domestic reverberations of unemployment and social unrest, at the international level it is clear that "if our competitiveness declines our influence will flag."<3>

TABLE VI.1

Comparative Research and Development Expenditures

	Gross Expenditure on R & D as percentage of Gross Domestic Product		Industrial R & D as % of Domestic product of Industry	
United States	2.52	2.70	2.0	2.0
Germany	2.20	2.58	1.7	2.0
Japan	1.90	2.47	1.2	1.6
United Kingdom	2.20	2.46	1.8	2.0
Sweden	1.46	2.23	1.4	2.3
France	1.91	2.06	1.3	1.5
Netherlands	2.07	1.88	1.5	1.3
Canada	1.37	1.39	0.7	0.8
Italy	0.75	1.08	0.6	0.7

Source: Statistics Canada, "Resources for R and D in Canada," Catalogue No. 88-203.

What then is to be done to remedy these structural weaknesses? At first blush, it may seem as if Ottawa's hands are tied. The government, in a federal system characterised by centrifugal pressures from the provinces and the absence of consensus and unity, has been severely constrained in attempts at indicative planning or the implementation of a national economic plan. (Thorburn, 1984: 14) Official Ottawa has, however, been alive to the structural rigidities that have emerged in the Canadian economy. Though often constrained in many areas of economic policy, there has been growing recognition that some of these ills can be ameliorated, if not entirely resolved, by a concerted focus on improving Canada's competitiveness.

In the field of export promotion, there are signs of a consensus among all the major players on the importance of stimulating trade. The federal government is becoming increasingly responsive to pressure from the private sector for increased state intervention and assistance to promote Canadian exports. Moreover, for once the provinces should have no axe to grind against Ottawa, while the labour unions have much to gain if indeed the export promotion strategy does succeed in improving employment levels.

While in the Trudeau era, the "third option" of trade diversification was never really tried, and indeed the 1970s witnessed a greater economic reliance on the US, there has been growing recognition of the potential of expanding Canada's trade with the Third World. Canada currently has a 2.2% share of developed country exports to LDCs. While this figure represents a modest increase over previous levels it is nonetheless a small share of this market in comparison to many other developed nations. Of

particular interest are a number of the newly industrialising countries, in the ASEAN bloc, for example, and in the Pacific Rim generally.

Although it was earlier stated that commercial objectives formed a central thrust of the first Trudeau administration, in practice, both at the domestic and foreign policy levels, much of the energy of the first and second Trudeau administrations was concentrated on the issue of national unity and the question of Quebec. With much of Ottawa's energy and attention diverted away from economic issues to some extent, the 1970s saw a gradual erosion of central government control in the management of the national economy as a result of the process of federal economic de-centralisation. The provinces began to compensate for Ottawa's economic failures by formulating their own provincial development strategies. The more assertive among them (i.e., Alberta and Quebec) began to develop independent links with the US economy and Europe. The net effect of this trend was that "the more effective the provinces were in their regional policy-making, the more the Canadian common market became balkanised by internal economic barriers." As this process deepened, Ottawa became increasingly unable to 'plan' for the nation in any meaningful way. Thus, as the 1980s got underway, the Canadian economy was made up of a recalcitrant Quebec, an energy-rich Alberta, and a de-industrialising Ontario.

The antecedents of the present administration's preoccupation with export promotion can therefore be traced to efforts to repair the fissures that had emerged in Confederation by the late 1970s, coupled with the structural economic weaknesses already discussed. Moreover, by the early 1980s Canada was experiencing its worst recession in fifty years. In 1982 real GNP fell by over 4.4%, the

sharpest decline in economic activity experienced by any major industrial nation that year. (EIU Annual Supplement, 1985: 9) These trends prompted the final Trudeau administration to undertake initiatives indicative of a new mood, if not practice, of economic nationalism -- the attempt to develop a national energy program (NEP), for example. At the same time, an effort was also made to rationalise the extent of Canadian commitments in the international arena. It was made incumbent on DEA to orchestrate the crafting of cohesive and productive bilateral relationships with some 20 to 40 countries of concentration, carefully selected for the potential they offered for export and investment. These areas of concentration were principally in the Pacific Rim, the Caribbean and Latin America.

2. Officially Supported Export Financing:
Beggar Thy Neighbour -- Whatever the Costs

Two principal international "pull" factors have prompted a "defensive" Canadian entry into the export credits field, namely, (a) the proliferation of export credits mechanisms by other major OECD nations; and (b) the ineffectiveness of international 'guidelines' designed to moderate the recourse to concessional export financing.

Government subsidies to promote export trade are not a new phenomenon. In the United Kingdom, the Export Credits Guarantee Department began its work in 1919. In the United States, the Export and Import Bank was established in 1934. In Canada, the Export Credits Insurance Corporation (the forerunner of the Export Development Corporation) was set up in 1949. (Rahman, 1985: 2)

Initially, government participation in export promotion was

confined to the insurance field. What is significant about the 1970s and 1980s is the phenomenal expansion of state activity in this area and the variety of export financing mechanisms that are now available. The rationale for this sudden increase in state intervention has been traced to the profound dislocations in the international political economy produced by the decision of the United States to delink the dollar from the gold standard and by the first OPEC oil crisis of 1973. (Rahman, 1985: 3) Until this point, the OECD nations had shown progressive levels of economic growth, coupled with stable interest rates. The oil crisis, however, contributed to a new pattern of rising inflation and fluctuating interest rates. Oil price increases were to have adverse effects on the economies of both the North and the South.

In the North, current account deficits became the norm. In the South, the effects on non-oil producing nations were much harsher. Huge current and capital account deficits in the South led, in turn, to a much reduced ability to import the costly capital goods normally supplied by the Northern nations. In the North, meanwhile, stagnant or sluggish rates of domestic economic growth intensified the competition for export sales, a trend made all the more acute by balance of payments deficits that made improved export promotion an imperative.

Fluctuating interest rates that inevitably favoured those countries with the lowest levels of interest (Germany and Japan) were one reason why many OECD nations then began to develop the legislative and administrative framework for official export financing institutions. This trend intensified during the 1980s, as monetary policies designed to curb inflation reduced the available money supply. This, in turn, bumped up interest rates, thus making

the search for financial packages attractive to prospective LDC buyers more intense as each 'lender' sought to provide -- via official support -- packages well below prevailing market rates.

Quantitative data underlines the extent to which lender nations are making increasing use of official supports. In 1979, the total figure for new commitments for export credits was US\$ 33,481 million. By 1980, this figure had risen to US\$ 43,709 million. (Rahman, 1985: 4) In 1983, export credits by OECD members accounted for 8% of total financial flows to LDCs in that year. (Cheney, 1985: 35) Table VI.2 summarises the commitments of some major exporting nations; it clearly shows that Canada has so far made only modest inroads to this market and has yet to significantly infiltrate the lucrative NIC market.

It is likely that there will be increasing recourse to official export credits since the volume of trade between North and South is likely to remain relatively stagnant. Continued reliance on various export credit mechanisms is also to be expected as private lending banks are not thought likely to appreciably increase their lending to LDCs in the near future. (Rahman, 1985: 5)

TABLE VI.2

Lenders and Borrowers of Officially Supported Export Financing

Lenders	Total Transaction (US\$ m)	Main Borrowers(1)	
		(%Share)	
		LDCs	NICs
Canada	958.1*	61.5%	0.1%
France	8,621.3+	71.4%	13.6%
Japan	8,170.5+	77.2%	11.6%
United Kingdom	11,051.0#	72.4%	22.0%
United States	2,989.7*	87.6%	12.4%
West Germany	4,859.1*	48.4%	13.5%

(1) The balance in the totals in the 'borrowers' column is made up of transactions with the planned economies.

* Figures reported are for the year 1983.

+ Figures reported are for the year 1982.

Figures reported are for the year 1980.

LDCs are Less Developed Countries.

NICs are the Newly Industrialising Countries.

SOURCE: Adapted from material presented in S. Rahman, 1985, Table 1.

a. Instruments of Official Export Support

Official export financing has been directed almost exclusively at the capital goods sector<4>, which forms a significant share of the exports of the industrialised world. A substantial proportion of these goods are exported to the Third World. The principal devices used to make a capital goods export package as attractive as possible are: (a) a reduction in lending rates; (b) extending the life of the loan with generous grace and repayment periods; and (c) innovating new techniques such as "credit mixte." Official export financing can be divided into four broad categories. (Rahman, 1985: 1)

The usual form of officially supported financing is provided by a government credit agency such as the Export Development Corporation (EDC). Loans are extended at interest rates somewhat below prevailing market rates. Commercial export financing from banks is supplied on a short or medium-term credit basis. The export credit agency then usually insures or guarantees the domestic bank's loan. Aid financing is also a form of export financing but here development objectives take priority. Funds in this form are usually disbursed on near grant terms. More recently, extraordinary supports such as "credit mixte" have been created with the aim of blending aid funds with other official and/or private capital to produce highly concessional terms. The French phrase remains in wide use, France being the first donor to develop this form of financing. (Cheney, 1985: 36) Parallel financing is also an "extraordinary support", and involves a cofinancing arrangement between a bilateral and a multilateral institution or a donor aid agency and that same donor's official export credit subsidy agency.

An example would be a cofinancing arrangement between CIDA and EDC. The Chamara H.E.P. project, to be discussed later, is a financial package of this type.

The crucial difference between credit mixte and parallel financing, at least in so far as Canada is concerned, is that the former is an entirely EDC administered instrument while the latter has two financial components, each administered separately by CIDA and EDC. Parallel financing is designated as a form of "associated financing" by the Development Assistance Committee (DAC) and must contain a minimum ODA grant element of at least 25% of the total package. In Canada "credit mixte" is not reported in the associated financing category since it has no ODA component.

b. Mechanisms of Compliance: A Regime in Decay?

As might be expected, the proliferation of concessional financing mechanisms has sharpened the competition among OECD lenders and widened the scope for acrimony, suspicion and resentment. The OECD has made efforts to establish guidelines, norms and codes to moderate the use of these devices but the legislation put in place to date suffers from two serious drawbacks that undermine its effectiveness. First, the 'guidelines' have been essentially reactive, with responses lagging well behind practice. Second, the guidelines have no teeth, being little more than a series of 'agreements' requiring only voluntary adherence by all parties. In the absence of binding rules or penalty clauses, some 'lenders' have been prepared to risk the threat of retaliation by ignoring or subverting the norms in order to gain an extra edge in the competition for a lucrative export deal.

The first significant breakthrough by OECD to establish a loose 'accord' or consensus among lenders dates to 1976 although it was not until 1978 that an official statement, the "Arrangements on Guidelines for Officially Supported Export Credits", was published. (Cheney, 1985) Under the OECD consensus a matrix was established to provide minimum interest rates for LDCs according to different levels of per capita income. This mechanism worked well while interest rates were low and generally stable, but by the late 1970s and early 1980s, interest rates began to fluctuate and a gap developed between these floating market rates and the matrix. A number of lenders then began to ignore the matrix, which effectively spelled the breakdown of the consensus. It was during this phase that the credit mixte scramble began.

The next significant development was the agreement by all DAC members to establish a new set of "guiding principles" in June 1984. DAC at this stage appeared to adopt an uncertain position on export credits. On the one hand, it expressed concern over trade distortion effects and the potentially negative impact on the developmental objectives of aid. On the other hand, DAC felt that these subsidies were suitable for countries with weak debt servicing capacities and those middle income countries where ODA is no longer justified but where some continuing access to concessional financing is nonetheless warranted. (OECD, 1984: 86) DAC also argued (with dubious logic, given the speed with which tendering takes place) that the 'quality' of an export package would be enhanced by bringing in the judgement and monitoring of an aid agency.

In April 1985, some further progress was achieved on the issues of notification of the intention to resort to export credits and of regular reporting arrangements (transparency) of individual nation

associated financing commitments. An element of discipline may now also prevail, since at the same meeting DAC members agreed not to undercut the minimum floor on interest rates or the ceilings on repayment terms in an effort to gain an unfair advantage over their competitors.(Cheney,1985)

Under the new arrangements, the minimum interest rates for official export credits have been linked more closely to market rates which, in principle, should reduce the resort to export subsidies. Another initiative designed to curb these mechanisms has come from the US, which has proposed that mixed credits be made too expensive to contemplate by raising the minimum grant element to 50% of the total credit package. In practice, this is unlikely to deter aggressive lenders, such as the Japanese, who are already well exceeding the minimum grant element of 25% in order to undercut the terms offered by their competitors. The current range of interest rates for associated financing arrangements is presented in Table VI.3:

TABLE VI.3

<u>Prevailing Minimum Interest Rates</u> (As of January 1985)			
Country Classification (By GNP per Capita)	Maximum Repayment Terms (In Years)		
	2-5	>5-8.5	>8.5-10
Relatively Rich (GNP per capita=\$4,000+	12.00	12.25	--
Intermediate (GNP per capita=\$681-4,000	10.70	11.20	--
Relatively Poor (GNP per capita= >\$681	9.85	9.85	9.85

SOURCE: Cheney,1985: 37.

In summary, a variety of instruments of official export support now exist. As the use of these mechanisms has increased, efforts have been made to minimise their trade distorting effects by ensuring that stringent reporting and notification procedures are adhered to. While some progress on this issue has been made, the voluntary nature of the "Guidelines" and "Consensus" arrangements limits their effectiveness.

3.No Easy Choice: The Costs and Benefits of Export Financing

An overview of changes in the international economy has been presented above in order to explain the broader reasons for the proliferation of official export credit institutions and the willingness of lender nations to divert concessional aid funds to export financing. It remains now to examine in more detail the specific arguments advanced in support of these measures, the criticisms that have been levelled against their use, and the practices of the main players in the field. This discussion will then lead into a more detailed consideration of the Canadian export credit system.

a. The Commercial Implications of Export Credits

From the lender's viewpoint, the key criteria for assessing the viability of export credits as a policy instrument are: (a) would the capital goods project sector be viable in the absence of subsidies?; (b) would the export orders have been obtained anyway?; (c) are there demonstrable effects on employment levels?; and (d) does the use of subsidies lead to unsubsidised orders in the

future?(Morris,1984: 344)

One of the strongest arguments put forward by proponents of export credits is that official supports are necessary as a market defence. Canada, in particular, has defended its entry into this arena by arguing that it has been forced to adopt policies which run counter to free trade. In its view, a failure to respond to the initiatives of other lending nations would leave Canada defenceless to protect established markets liable to encroachment by competitors.(Wilhelm,1984: 266) Variations on this theme of market defence have been used by all the main players to legitimise their policies. The official Canadian position continues to be critical of practices that involve costly subsidies and distort normal 'free' market competition. On the one hand, it is conceded that these mechanisms may divert resources away from other sectors of the economy and may, in addition, distort development objectives by their stringent tying rules. On the other hand, Canada's practical response has been far more pragmatic than its stated position. Thus, while Canada continues to champion efforts to moderate export subsidies, it recognises that regulatory mechanisms continue to be subverted or ignored by key players. Given this climate, Canada takes the position that "it will be important to ensure that Canadian exporters are not operating at a disadvantage due to the financing practices of other countries." (Export Financing,1985: 15) An extension of this argument of market defence is the rationale that re-entry into a market once lost or abandoned becomes a "long and costly business, if it is possible at all."(Morris,1984: 343)

A second argument in favour of an extension of export credits turns on the need to preempt the entry of potential competitors into a market. Closely linked to this last point is a third argument

which emphasises the support export credits give to firms attempting to penetrate new markets.

A fourth line of reasoning advanced by some countries, notably France, is the 'infant industry' argument; here, the rationale is that embryo industries with a potential to provide valuable jobs and foreign exchange must, in the early stages of their development, be protected by government if they are to establish themselves and develop their potential. (Rahman, 1985: 13) Export credit packages can play a critical role in the development of new technologies such as telecommunications and nuclear reactors. These new technologies require a considerable investment of risk capital for costly research and development programmes and thus, in the short term, represent a considerable drain on finite government resources. Credit mixte packages that successfully entice interested, but capital-starved, buyers are one way of ensuring a reasonable return on the initial risk capital to launch the infant industry. This particular rationale may also be pertinent to Canada, given its proven capabilities in nuclear power (the CANDU reactor, for example) and telecommunications.

A fifth argument in favour of export credits as an instrument of trade promotion is that by improving sales the lending nation can maintain, and may even enhance, productivity and employment levels. The FRG, for example, has used mixed-credits in an effort to maintain production levels in its shipbuilding and locomotive industries. (Wilhelm, 1984: 266) This line of reasoning has also been uppermost in official Canadian policy statements which stress that "every region of Canada is dependent on exporting to foreign markets....major industries cannot survive without exports to foreign markets. And these exports mean millions of jobs for

Canadians." (Competitiveness and Security: 17)

The sixth argument used by defenders of official export supports is based on the belief that financial packages with a concessional component are legitimate and, indeed, beneficial to the buyer. It is held that an associated financing package allows the buyer to finance costly infrastructure projects, which may have high priority in their national development plans but which would not normally be possible to realise, given foreign exchange constraints and/or poor standing in attracting the necessary private risk-capital.

Finally, in the specific case of credit mixte, where concessional ODA is combined with more commercial capital to 'soften' the terms of the overall package, it has been argued that this technique enhances rather than distorts development objectives, since it "stretches" a limited amount of aid over a larger number of projects. It is further argued that these arrangements may also help the donor's aid agency to achieve its volume-related development targets. (Export Financing, 1985: 16)

In addition to the various arguments presented above, the current mushrooming of export credit arrangements reflects the prevailing fashion among economic planners in OECD nations to view exports, irrespective of how they are financed, as being good for the national economy since they promote diversified trade patterns and a wider range of export products. For a still heavily resource-based economy such as Canada, and one subject to declining terms of trade, product and market diversification reduces the overall vulnerability of the economy. Export credit supports are thus one way of guarding against unstable swings in overall employment, inflation, exchange rates and balance of payments, features which are typical of economies in which production is

concentrated on a few commodities.

The arguments in favour of increasing state intervention for export promotion can now be placed in perspective by examining the viewpoints of scholars critical of this trend. As might be expected, the dissenters come from both mainstream economists who question the supposed domestic benefits of export credits, as well as from more radical scholars who focus on the ethical implications of allowing commercial objectives to take precedence over developmental concerns when ODA is "blended" into "credit mixte" or parallel financed projects.

Beginning with the economic arguments, the most glaring critique of export credits is that they are, in essence, protectionist devices that run entirely counter to the concept of free trade to which the lending nations nominally subscribe. Seen in this light, the actual practices of the lenders appear hypocritical.

Secondly, the pursuit of short-run advantage produces, in the long-term, a cumulative set of maladies that will inevitably strain the free working of the international economy by inflaming rivalry and trade conflicts among OECD members. Successive Economic Summits, such as the Williamsburg Summit in 1983, have made declarations to rollback protectionist practices. In the specific case of export credits, however, practice continues to diverge sharply from rhetoric.

The principal malady produced by the overuse of official export supports is the creation of 'spoiled markets.' As Toye(1985: 21) puts it:

indiscriminate use of devices like credit mixte merely spoil markets and undermine the possibility of normal commercial business. They should be resisted because while they bring short-run gains to individual countries of a rather insignificant kind, in the long run they are to every exporter country's detriment. In this way they are exactly analagous to the well known "beggar-my-neighbour" policies, such as competitive devaluation which appeared in the depression of the 1930s.

The momentum in the use of mixed credits bears all the hallmarks of an intense export credit war. While the larger donors and more buoyant economies may be able to sustain the drain on government budgets entailed in waging such a war, the implications are serious indeed for the smaller donors and the more vulnerable and trade dependent economies. Thus, for example, the Jackson Report -- a Royal Commission on Australia's foreign aid programme -- recognises that "as a small country, Australia would be better served by an open trade environment than a 'free-for-all' in aid and trade subsidies." (Australia, 1985: 120) Similarly, Canada, in principle at least, recognises the danger of precipitating an export credit war if a "predatory approach" is adopted. (Export Financing, 1985: 4)

It is clear that Australia would be hard pressed to make an adequate response from its limited aid programme. This is seen in stark clarity when one compares the proposed allocations it has made for its export credit programme (A\$10 million with a ceiling of 5% of the ODA total) with the US proposal to divert US\$275 million from its aid budget of nearly US\$10 billion. (Australia, 1984: 125) As discussed below, despite the fact that it has a much smaller programme than the US, Canada has until very recently been committed to funding an adequate response.

At the most general level, if it is accepted that the pressure

for subsidised export financing is a result of the inability of the purchasing countries to finance their imports through their export sales, then the rational solution would be to reduce the protectionism that LDCs face. (North-South Institute, 1985: 4) Even defenders of export credits concede that "subsidies of a protectionist nature -- whether in the form designed to impede imports or, as here, designed to protect export orders -- are likely to distort trade and competition in a manner which reduces economic efficiency and welfare." (Morris, 1984: 341)

Even if the impact of these measures on LDCs is discounted as a reason for abandoning current programmes, critics have questioned the assumption that export supports do significantly create benefits for the domestic economy by enhancing productivity and employment. Critics have also provided powerful arguments that the costs of export credits to the lender far outweigh the benefits. For example, a recent interdepartmental UK government report (1982) argued that the costs to the UK economy of creating jobs through devices such as mixed credits was several times higher than those created by other departments. Thus, an estimate of the job creation costs of a mixed credit programme was £33,000 per job in comparison with a cost of £5,000 for each job created through a Community Enterprise Programme and £7,000 for each job created by the Young Workers Scheme. (U.K., 1982)

The supposed benefits of job creation notwithstanding, an extension of mixed credits and other "extraordinary supports" creates a philosophical conundrum for administrations committed to minimal or reduced government intervention, such as those currently prevailing in the UK, USA and Canada. As the recent Canadian Consultation Paper acknowledges, increased government subsidisation

may act as an obstacle to the development of a more efficient and effective effort by the private sector. (Export Financing, 1984: 6)

Also damaging to the rationale for official export supports is the recognition that these subsidies are offered to a buyer's market. Sophisticated importers, such as India and Brazil, already have the expertise to play off competing exporters to their own advantage. (Rahman, 1985) Some recipients have taken advantage of donor rivalry to impose local content rules that promote their own commercial concerns. <5> Moreover, protectionism by the North in other sectors of the economy may rebound onto their trade promotional efforts. Thus, for example, Canadian curbs on textile and garment imports from Indonesia led to threatened retaliation against Canadian development assistance projects, placing the CIDA programme in a designated core country at risk. (Rudner, 1985: 141)

For Canada, the conclusions of two independent studies in the UK and Australia may be instructive. The Jackson Report (Australia) concluded that

the provision of subsidies to particular industries would be against the long term interest of Australia. It would be difficult to justify on equity grounds the outlay of taxpayer's money to subsidise particular sectional interests. (1985: 121)

Furthermore, the report argued that:

although the Australian aid program is closely related to trade, and although aid and trade policies should be complementary, aid policy cannot be a substitute for economic policy. (Op. Cit.: 115)

Similarly, the Byatt Report (UK) argued the general case for the removal of support. It asserted that (a) "there are no a priori reasons for discriminating in favour of the capital goods sector;"

(b) "the fact that other countries automatically support their capital goods sector...is not an economic argument for automatically doing likewise." If, as Byatt believed, a large part of the UK subsidy ultimately accrued to the foreign importer, this in itself was reason enough to stop support irrespective of what other governments were doing. (Morris, 1984: 341)

b. The Developmental Implications of Export Credits

The first point that must be stressed is that mixed credits and parallel financing are heavily tied to purchases from the lender. For example, one of the stipulations of EDC financing is a high Canadian content. It has already been noted that Canada has the second most highly tied DAC aid programme, with 78% of its bilateral programme tied to Canadian content. An instrument such as the Aid/Trade facility may increase this proportion since in this facility, and in a mixed credit or parallel financed project, both the grant and commercial elements may be used to purchase goods entirely from the lender. In the Canadian case, the Consultation Paper stresses that Canada has been relatively relaxed in this respect. The average Canadian content in packages involving EDC has been 75% in contrast to US requirements of 100% domestic content for Exim Bank loans. (1985: 8) However, given the current practices of other donors, it is certainly conceivable that Canada will follow suit and increase its domestic content requirement. After all, "the higher the Canadian content the greater the likelihood of net economic and employment benefits." (Consultation Paper, 1985: 8)

In defence of mixing aid funds with more commercial credits, the view is put forward that the provision of subsidies makes possible

financial packages for the construction of major infrastructural projects (dams, transport networks, etc.) which would not otherwise have been undertaken by the LDC in question. For example, in arguing for an extension of US involvement in the subsidies game, Wilhelm(1984: 265) cites the precedent of funds subsidised by the US government to sell a financial package for the construction of the Upper Volta River project in Ghana in 1956. What Wilhelm fails to mention, however, is that this costly example of 'prestige aid' was widely viewed at the time as a costly white elephant that brought substantial business and profits to the US developer, Kaiser and Reynolds, without laying the basis of an aluminium smelting and processing industry which was the Ghanaian government's original intention.(Young;1982: 261) In other words, the "aid-sweetened" mega-project may tempt an LDC into a pattern of "conspicuous industrialisation" and create an added drain on already overstretched domestic revenues and debt repayment schedules.

Of equal concern, from the donor's point of view, is the impact that an 'Aid/Trade Facility' is likely to have on the "shape" of its aid programme. The use of aid funds in the promotion of the capital goods sector will inevitably lead to a concentration on large-scale infrastructure projects, and equally on those middle income and newly industrialising LDCs with the trade potential and financial wherewithal to be able to afford this type of project. A situation may develop where a particular recipient may receive the bulk of its aid via this channel. Since the poorest countries -- the LLDCs -- which currently receive the bulk of their foreign investment in the form of ODA represent high risk and low potential markets from the commercial point of view, mixed credit and parallel financing projects will not, in general, be directed their way. Unhappily, it

is certainly possible that an Aid/Trade Facility will involve the diversion of funds away from both the poorest countries and the poorest groups. There are already indications of this trend. Both the UK and France, who have traditionally been important donors in Africa, are now diverting aid flows away from Africa, and towards Latin America. (Australia, 1984: 124)

From a developmental viewpoint, an Aid/Trade mechanism may also mean a diversion of funds away from multilateral aid institutions and back to the bilateral programmes of the respective donors. This is especially likely in those countries, such as Canada, that have not fared well in the fiercely competitive tendering for multilateral projects. (North-South Institute, 1985) During the 1970s, many aid donors responded positively to the argument that the multilateral aid fora were more concerned with purely developmental considerations and that the diversion of funds towards these agencies would offset the self-interested and commercial considerations prevalent in most bilateral programmes. Today, the pendulum has swung the other way. As noted earlier, even the progressive Scandinavians have reduced their contributions to multilateral fora.

One final consideration in which both domestic economic concerns and developmental impact combine is the belief, on the part of a number of commentators, that export credit facilities are essentially firm-driven. As Toye has reflected in relation to the UK Aid/Trade Programme (ATP), how can the government ensure that the company that is given the subsidy is in fact the most competitive in that particular product area? (1985: 14) In practice, speed is of the essence in tendering in the capital goods sector. Since, in many cases, the initiative for the use of Aid/Trade funds is likely to

I come from a firm, and since decisions must be taken with great urgency, the government agency may not possess all the facts or have the time to encourage and consider other bids. It may thus be obliged to act on faith and so be vulnerable to the pressure and even manipulation by the firm concerned.

As Toye points out, from the perspective of the firm what matters ultimately is whether it sells its output profitably: "Who pays for that price, whether the customer or the taxpayer, is a matter of complete indifference to the firm." (Op.Cit.:10) It is for that reason that firms will want to transform a defensive credit mixte scheme into an aggressive instrument of export promotion. They are unlikely to be sympathetic to the "logic of deterrence" -- that the only justification for the use of credit mixte is if it deters competitors from adopting similar policies. These considerations make the management of an Aid/Trade facility a hazardous and uncertain business. This problem is compounded by an inability to adhere to a fixed cash limit, since expenditure depends on the number of acceptances, not offers, and acceptances are not subject to the control of the lender. Furthermore, from the management point of view, a credit mixte offer process is not compatible with a policy dialogue with the potential recipient.

The principal deficiency of an Aid/Trade facility, however, is the structural problem of combining, within a single scheme, two complex and potentially incompatible objectives -- commercial and developmental. In practice, the developmental objective is usually viewed as a minimal value and a constraint in a scheme which is designed to enhance the commercial benefits to the donor. (Toye, 1985: 3) The problem with this developmental constraint is that it is difficult to delineate in operational terms and is therefore open to

abuse. However, of even greater concern is the fact that this fusion of goals may be unrealistic, since it is an accepted tenet of public policy theory that the achievement of a given number of policy objectives requires at least an equal number of policy instruments. Housing two different species under the same roof may well mean that neither prospers.

4. The Current Extent of Associated Financing

The numerous arguments that question the logic of export financing have not, however, deterred the lenders. In 1983, 15 DAC members reported associated financing transactions. By volume, they were ranked as follows: France, the UK, Italy, Japan, Canada, the Netherlands, Switzerland, Germany, Norway, Sweden, Austria, Belgium, Denmark, Finland and the US. (OECD, 1984: 115)

On the average, from 1981 to 1983, France provided about 45% of the total DAC associated financing commitments, UK about 22%, Italy and Japan about 9% each, and Canada approximately 5% of the total. (OECD, 1984: 86) For all source countries, the ODA share in associated financing rose from 31% in 1981 to 38% in 1983. Moreover, the ODA component to "upper middle income" countries -- i.e., the group of about 60 countries with per capita incomes of above \$1,200 -- rose from 24% to 32% over the same period. (Ibid.) Among the countries most heavily favoured for associated financing packages were Gabon, Malaysia, Algeria, Tunisia, Lebanon and Mexico. As the originators of credit mixte and virtually the sole exponents prior to 1978, the French are still seen as the main "culprits," especially by the US. Since 1978, however, the practice has spread rapidly to all OECD countries and to several LDCs as well, including

Brazil, Argentina, India and South Korea.

Britain and France now devote about 20% of their bilateral ODA to their credit mixte facilities. The UK initially devoted 5% to its Aid/Trade Provision (ATP), but has substantially increased that proportion since its inception in 1979. The bulk of the UK credit mixte projects have been in heavy industry, power, shipbuilding and construction. (Rahman, 1985:51) The French, in addition to providing an official credit mixte facility, offer somewhat less concessional terms in a package that mixes ODA, official credits and commercial bank financing. They have focussed their efforts on the promotion of transport and telecommunications. The Japanese have been among the most inventive and least morally constrained in their use of associated financing. They offer what is, in effect, a mixed credit but one that escapes the narrow legal definition by the disaggregation of the ODA and Japanese Exim bank components in a parallel financing arrangement. The Japanese have been notorious in their disregard for consensus rules, but they have been subtle in their use of ODA credit lines as 'bait' to entice a recipient to combine this form of credit with a Japanese Exim loan on somewhat harder terms to produce a large but attractive financial package for goods procured from Japan. (LaPittus, 1984: 259) Finally, the US has been a late and reluctant entrant, arguing (in keeping with the Reagan administration's economic philosophy) that credit mixte was counter to the spirit of free trade.

Canada Enters the Export Credit Market

Canada is also officially opposed to associated financing and supports the US minimum 50% grant element proposal. (P.H. Sutherland,

interview) The Department of Finance is particularly opposed to the European notion of a graduated concept of lending, with highly concessional loans to LLDCs and more associated financing to middle income LDCs and NICs.(D.Williams, interview)

However, as early as December 1978, the Export Promotion Review Committee, established by the Minister of Industry, Trade and Commerce, urged the government to ensure that in a situation where "significant Canadian export business is at risk, EDC is able to match competitive financing by utilising concessional rates." (Strengthening Canada Abroad, 1979: 11)

By 1981 the Trudeau administration was ready to act. It announced that C\$900 million was to be appropriated over three years for credit mixte transactions. The programme envisaged effective interest rates ranging from 4% to 6% on a case by case basis.(Rahman, 1985: 51) This initial facility, managed entirely by EDC was, however, used on only four occasions, the largest transaction being a transport network for Mexico City, a project constructed by Bombardier of Montreal. Although the Canadian export community was well aware of its existence, the stringency of the codes guiding the facility's application effectively precluded its use. In the first place, a potential Canadian firm applying to EDC for a subsidy had to provide documentary evidence that a foreign competitor was receiving official financial support from its government. Secondly, an EDC concessional loan could not be used in a country that was a "core country" of the ODA programme.<6> Clearly, at this stage the Canadian initiative was still 'defensively' inspired.

By 1983, both of these restrictions as well as the C\$300 million annual ceiling for the facility had been relaxed. The Trudeau

administration then began to turn its energies to the creation of a more aggressive export promotion mechanism which, as has been seen, involved the reorganisation and rationalisation of DEA, efforts to increase the responsiveness of CIDA to the needs of the business community and, in respect of associated financing, the closer coordination of EDC and CIDA.

As the North-South Institute has stressed, the pressure for an associated financing mechanism in Canada is especially strong since the Canadian export sector is known to be deficient in a range of factors determining success -- particularly service and spare parts, price support and technical training.(1985: 5) In the government's view, if all other factors are equal, then an associated financing package can make the crucial difference in winning an export tender.

So, in Marc Lalonde's budget of February 1984, the Liberals announced their intention to create an Aid/Trade Fund (ATF) which explicitly recognised the potential role of aid in the promotion of trade. The rationale for the fund was explained as follows:

Public support can do much to enhance the role our private sector can play in international development. The developing countries are experiencing unusually serious balance of payments problems which are impeding their development efforts and their capacity to import. Their decisions to undertake investments and capital projects hinge on the availability of financing on concessional terms. To respond to these needs for our own benefits as well as theirs, we shall require closer coordination of our development assistance and our export financing policies.(House of Commons Debates, 15 February, 1984)

Lalonde announced that fully one-half of Canada's increased spending on ODA would be directed to ATF. At the time, Trudeau had already announced the government's intention to increase Canada's

ODA from 0.5% of GNP per annum to 0.7% by 1985. On this basis, estimates for the fund have varied from C\$900 million over the next five years (Rahman, 1985: 52) to as much as C\$1.3 billion by 1990.

This new mechanism is a considerable advancement on the original EDC facility since its intention is not simply to match the credit mixte offers of other 'lenders', but to galvanise domestic firms and CIDA to seek out and initiate offers. Moreover, as the Consultation Paper emphasises, an aid/trade mechanism has advantages over parallel financing arrangements, which are constrained and delayed by target country programming cycles in the ODA component. By contrast, the aid/trade mechanism can be quickly committed and would not be restricted by the geographic, sector and income priorities of the bilateral programme.

Not surprisingly, the incoming Tories have been keen to take up where the Liberals left off. In Michael Wilson's February 1985 budget speech, the Tories announced the creation of a Trade and Development Fund (TDF), essentially ATF under a new name. The facility was to be managed by CIDA, thus emphasising the facade of a development orientation and allowing Canada to remain within DAC reporting guidelines.

The impetus for TDF appears to have come from the Department of Finance which has been concerned with ways to ease the burgeoning federal budgetary deficit. Apparently, Finance was of the opinion that the EDC credit mixte facility, though little used, represented in principle too direct and generous a government subsidy, thus potentially adding strain to the capital account. That burden could, however, be eased by a soft loan facility that incorporated monies earmarked from aid funds. (Marilyn Cayer, personal communication) In effect, therefore, the EDC credit mixte facility has been supplanted

by TDF but involves no extra burden on the concessional government account. If correct, this assertion substantiates Freeman's opinion that tackling the capital deficit has been a principal preoccupation of Finance in recent years.(1985: 112)

Since TDF is still in its early stages it is difficult at this stage to comment on its likely impact. There have been interdepartmental discussions among the central players, such as Finance, DEA, CIDA and EDC, and even simulated decision-making exercises, but the precise mechanics and administrative division of labour have still to be ironed out.

Table VI.4 summarises the extent of Canada's associated financing projects: It indicates that parallel financing has been used on 16 occasions since 1978 with a total value of \$1.1 billion, of which the CIDA portion has been \$298.5 million. All of CIDA's funding has been in the form of a Type 1 loan -- that is, a soft loan with no interest, a grace period of 10 years and a maturity of 50 years. A further 19 projects with a value of \$2.2 billion are currently being considered for this type of financing. Table VI.4 also indicates that while the average CIDA contribution to these projects is 26% of the total, the ODA component has on occasion been as much as 43%, as in the case of locomotives and rail cars to the Cameroons. The table reveals the heavy project concentration in transport and electrification, with some representation for the communications and mining sectors. The other domestic sector likely to benefit in the future from parallel financing arrangements is the agricultural production, processing and equipment industries. Finally, the table bears out the expected project concentration on middle income countries and LDCs with good market potential.

TABLE VI.4

CIDA-EDC Parallel Financed Projects, 1978-1984.

Country and Project	EDC Portion (\$million) (%)		CIDA Portion (\$million) (%)		Total Cost
<u>Cameroons</u>					
Locomotives,					
Rail cars	38.2	56.8	29.0	43.2	67.2
Rural Electrification	24.0	58.8	16.8	41.2	40.8
Line of Credit (ODA)	120.0	70.5	50.0	29.5	170.0
Railway Bridges	12.0	66.6	6.0	33.4	18.0
Rural Electrification	5.0	62.5	3.0	36.5	8.0
<u>Egypt</u>					
Locomotives	109.4	80.6	26.4	19.4	135.8
Shoubrak El Kheima					
Interconnector	55.2	73.5	20.0	26.5	75.2
Food Security					
(Line of Credit)	15.0	75.0	5.0	25.0	20.0
<u>Indonesia</u>					
South Sumatra					
Coal Mining	155.0	77.5	45.0	22.5	200.0
<u>Ivory Coast</u>					
Rural Electrification	58.6	58.8	41.0	41.2	99.6
<u>Tunisia</u>					
Line of Credit	96.0	82.7	20.0	17.3	116.0
<u>Zimbabwe</u>					
Locomotives, Spares	8.4	58.3	6.0	41.7	14.4
<u>Peru</u>					
Transmission Line	22.4	70.0	9.6	30.0	32.0
<u>Gabon</u>					
Rural Electrification	18.7	80.0	4.7	20.0	23.4
Services	0.6	75.0	0.2	25.0	0.8
<u>Swaziland</u>					
Earth Satellite	4.2	84.0	0.8	16.0	5.0
<u>Total</u>	<u>817.7</u>	<u>(73.3)</u>	<u>298.5</u>	<u>(26.7)</u>	<u>1,116.2</u>

SOURCE: Export Development Corporation and CIDA.

In addition to parallel financing projects by CIDA and EDC, CIDA has recently enlarged its co-financing activities with foreign donors and regional development banks. The most significant development has been the collaboration with Arab/OPEC aid agencies. CIDA is currently involved in the co-financing of 35 projects in 29 countries in cooperation with Arab/OPEC donors. Total commitments for these projects are US\$7 billion, of which Canadian contributions amount to US\$905.4 million. Canada is the third most heavily

committed of OECD donors in co-financing arrangements with Arab/OPEC aid, ranking behind West Germany and France. (Odeh, 1984: 21) The Arab/OPEC agencies concentrate on capital-intensive infrastructure projects, notably transportation, telecommunications and power -- areas which complement Canadian expertise and emphasis. (Rudner, 1985: 142) Table VI.5 indicates the geographic dispersal of current CIDA/Arab aid projects, which are heavily concentrated in Africa.

TABLE VI.5

Bilateral Projects Co-financed by CIDA and Arab Donors
(US\$ million)

	Participants			Total Value
	Canada	Arab	Others	
Francophone Africa	290.4	878.4	--	2,712.1
Anglophone Africa	227.8	318.4	--	1,089.8
Asia	201.4	430.9	584.3	1,513.3
Americas	35.0	8.5	--	800.0
Total in Canadian dollars	905.4	1,963.4	--	7,338.2

SOURCE: Table 21.4 in M. Achilli and M. Khaldi, eds.,
The Role of the Arab Development Funds in the World Economy,
p. 285.

In Canada, three mechanisms of export credit support were introduced sequentially. The first instrument was a credit mixte facility to be entirely administered by EDC, and relied on funds from the concessional government account and from EDC corporate funds. The second mechanism was parallel financing to be separately administered by EDC and CIDA, which relied on funds entirely from these two agencies. The most recent innovation, the Trade and Development Facility, is to be administered by CIDA and funded entirely from the bilateral portion of the aid budget.

The concessional ODA component is only a small portion of

Canada's export promotion drive using export credits and extraordinary supports. Since, however, a policy initiative as controversial as the Trade and Development Facility is being defended and legitimised partly on the strength of its employment generating potential, it is worth examining the validity of this claim in some detail.

It has already been noted that the results of a UK Treasury Board study showed that the costs of job creation using these mechanisms greatly exceeded those employing more traditional methods.(U.K.,1982) It has also been seen that the few studies conducted in Canada on the job creation potential of the bilateral aid programme have also stressed the excessive costs involved in comparison to methods devised by other departments.(Hay,1978; Wyse,1983: 7)

The most recent economic simulation on the impact of officially supported export financing was conducted by the Economic Council of Canada in 1981. The results were mixed. On the one hand, it was found that export credit subsidies do improve the balance of trade and the current account balance in all cases. On the other hand, however, a comparison of the employment generating costs of export supports with other forms of job creation strategies revealed that the latter generate greater employment benefits and greater increases in GNP. (Economic Council of Canada,1982) The competitiveness of Canadian export financing arrangements is placed in comparative perspective with the programmes of other donors in Table VI.6. The table confirms that Germany and Japan have mixed credit facilities with the lowest costs. Canada's export credit mechanisms are also shown to be relatively cost effective.

A closer inspection of a single associated financing project

shows how an aid/trade facility will work in practice. The example chosen is the planned construction of the Chamara hydro electric dam in northwest India. Details of the project were finally hammered out in an agreement between the governments of Canada and India and signed in Ottawa in August 1984. The projected cost for the project is C\$650 million. This sum will be given to the government of India as a loan under a parallel financing arrangement involving some C\$400 million from EDC and C\$250 million from CIDA's bilateral funds.

TABLE VI.6

Results of a Simulation Comparing the Costs and Subsidies Incurred by the Official Export Credit Agencies of Six OECD Countries, 1980-1983

Average for the Years 1980-1983
(US Million)

	Subsidy to Recipient	Cost to Export Credit Agency
Canada	150.79	53.06
France	224.38	164.68
Japan	201.05	18.42
United Kingdom	201.05	115.48
United States	190.45*	0.00
West Germany	188.67*	0.00

* These figures are the averages of only three years: 1980, 1981 and 1982

SOURCE: Adapted from Table 4-2 in Syed S. Rahman, The Competitiveness of Canada's Officially Supported Export Financing System, 1985.

India is now entering its seventh Five Year Plan which emphasises energy, agriculture, rural development and industry. (CIDA Review, 1982/83: 505) In the budgetary allocation for the Plan, the "largest single amount, Rs 54.8bn, goes to the energy sector with as much as Rs 34.3bn devoted to electricity generation. This is in recognition that crippling power shortages are holding back both

industrial and agricultural development." (Financial Times, 13.11.1985)

As part of its energy programme, India has been interested in harnessing the enormous hydro-electric potential of its Himalayan and other fast-flowing rivers. At the national level, a Hydro Electric Power Corporation (HEPC) has been established to oversee the management of this resource. From the viewpoint of regional development, an ongoing concern has been the creation of energy resources for the more peripheral states not served by strong administrative networks in the power generating sector. One such state is Himachal Pradesh, located in north western India and bordering China.

The genesis of the Chamara project dates to 1981 and began as a byproduct of a meeting between Prime Ministers Trudeau and Indira Gandhi. In this sense its conception is probably not typical of parallel financing projects, but in other respects it remains representative. In addition to the Prime Ministerial meeting, Canada had already established a presence in the hydro sector in India by its construction, through the aid programme, of a similar project in Kerala -- the Idduki dam. Moreover, Canada is internationally competitive in the hydro sector in virtually the full gamut of specific tasks. These include identification, feasibility, design, engineering construction, supervision and generating equipment. (D. Gold, personal communication)

Having agreed on the principle of constructing a dam, the next step was to locate a site and carry out feasibility studies. This was done by a CIDA sponsored mission of hydro experts and private consultants. Apparently, no specific firm was represented although SNC was already making independent representations that would load

the dice heavily in its favour. Of the five or six sites identified by the Indians as suitable, Chamara was eventually chosen, principally because CIDA was most satisfied with the institutional structure at the receiving end -- the project would be managed by HEPC. A consortium of Canadian firms was then established, with SNC and Acres responsible for the engineering aspects and Canadian General Electric and Marine Industries responsible for manufactured products such as turbines and electrical equipment. Interestingly -- and perhaps more than coincidentally -- the consortium divides equally between Quebec (SNC and Marine Industries) and Ontario (Acres and CGE). It is estimated that the dam will supply 540 megawatts of electricity, which HEPC will channel into a 400K transmission system. Construction of the project began in 1985.

5. An Alternative Strategy for Canada?

Although the die appears largely cast in relation to the expansion of export promotion and the intrusion of commercial objectives in the aid programme, are there any alternatives open to government? One possibility is to increase the role of private banks in export promotion. The banks may have an important role to play in assisting medium sized business to find markets in the LDCs. This suggestion is, however, strongly resisted by groups such as the Canadian Export Association.

The North-South Institute, an independent research group dealing with Canada's relations with the Third World, in responding to the Consultation Paper on export financing has argued that, while export promotion is a legitimate policy objective, the diversion of aid funds for that purpose is not. (1985) The Institute has pointed out

that the Canadian state already finances a much larger share of exports to LDCs than does public finance among other donors. Canada has also been more prepared than other donors to finance these flows via the aid programme. As a share of the country's exports to LDCs, Canada's credit mixte programme ranked third behind France and the UK.(Op. Cit.) Additionally, 10% of total Canadian exports to the Third World are financed as tied aid through the aid programme.

As for specific recommendations, the North-South Institute places faith in expanding rather than contracting the proportion of ODA directed to multilateral agencies. Although it concedes that Canada's track record in these fora has, to date, been very poor, it has argued that this is due more to a lack of serious bids than to any intrinsic lack of competitiveness. The large and lucrative potential of the multilateral market, well in excess of the domestic market, is also stressed as another reason why Canada should reconsider this option.

Conclusion

This chapter has examined the recent proliferation of state intervention in the promotion of the capital goods sector -- a process that is now leading to a closer integration of the aid and trade components of industrialised country activities. An explanation of Canadian initiatives was seen in a series of 'push' and 'pull' factors in the domestic and international economy. Empirical evidence, however, questions the wisdom of Canada's commitment to expand its activities in this area. Although one economic simulation concluded that 'on balance' export credits are a useful way of stimulating economic activity(Rahman,1985: 91), the

job creation argument has been discredited as an overcostly policy instrument, while the "downstream" benefits of attracting unsubsidised orders have yet to be consistently demonstrated. The chapter also reviewed the costs and benefits of these mechanisms both to donors and recipients, and emphasised the potentially negative impact of an aid/trade mechanism on the developmental objectives of the Canadian aid programme.

While norms, principles and procedures designed to moderate the use of associated financing have been established, they are voluntary; the absence of enforcing mechanisms has meant that nations have been able to pursue their short-term interest by subverting the rules.

Associated financing arrangements represent protectionist policies par excellence, and the trade and development distorting effects are recognised by the 'lenders.' By appearing to offer bargains in capital goods, they can encourage LDCs to increase their debt exposure. They represent at the same time a growing fiscal burden on the tax payers of exporting nations. Officially, Canada has largely supported US-led efforts to eliminate the use of these devices. In practice, however, short-term considerations and hoped for benefits have outpaced a measured reflection on the possible long-term costs -- both to the domestic economy as well as to international economic relations, more generally. The divergence between official rhetoric and actual practice underlines the dilemmas facing policy-makers calculating the costs and benefits of export financing. As one Canadian administrator has put it, "you are damned if you do and you are damned if you don't." (Lindsey Gordon, personal communication). Canadian initiatives in export financing put into sharp relief the rhetorical assertions of politicians such

as Mark MacGuigan, who claimed that:

Interdependence is no longer an option. Interdependence is in fact a condition of international life today. The challenge for all governments, now more than ever, is therefore to summon the courage and wisdom to avoid shortsighted assertions of national interest which have a "beggar thy neighbour" effect."(1983,: 199)

If the presence of subsidised export financing is a result of the inability of LDC buyers to finance their imports from their export sales, then the only rational solution is to reduce the protectionism they face. Solutions may, however, remain elusive since, in the short-term at least, the foreign exchange constraints of most Third World importers are not likely to be significantly eased.

The comparative case study presented in this chapter provides a dramatic illustration of the contradictory pressures facing public policy-makers in the developed nations. In the context of the broader theoretical concerns of this study, the evidence presented provides strong support for a state-centric conception of international relations, and one in which short term self-interest has so far consistently outweighed cooperative efforts to moderate the trade and aid distorting effects of export credit mechanisms.

FOOTNOTES

<1> Competitiveness and Security, 1985. p.18.

<2> Other minerals also record this precipitous decline in Canada's traditional resource based comparative advantage. Thus, in 1950 Canada produced over 80% of the world's crude nickel, but is now responsible for less than 25% of it. Copper is being replaced by fibre optics and aluminium in communications and electricity transmission, respectively. The carcinogenic and poisonous hazards of asbestos and lead are leading to their replacement wherever possible, while in the pulp and paper industries the

conversion to electronic print and the competition from strong pulp and paper industries elsewhere seriously threaten the viability of this staple Canadian resource. S. Clarkson, Canada and the Reagan Challenge (Toronto: James Lorimer and Co, 1982).

<3> S.Dansereau, Mimeo 1985, p.29.

<4> The term 'capital goods' in this paper is taken to include the production of all large scale machinery and equipment. The specific examples in relation to export credit packages are energy(hydro and nuclear), communications, railway equipment, ships and aircraft, electrical, scientific and agricultural equipment as well as the provision of turnkey plants.

<5> The extent to which the capital goods export sector has become a buyers market is evident in the nuclear power field where a recent deal between the Turkish government and Canada underlines the shift in bargaining power in this sector. Turkey's current external debt service charge is in the region of US\$ 9,000 million and places severe constraints on its ability to finance the import of capital goods and turnkey plants central to its development plans.

Briefly, Turkey is poised to pull off a significant first and establish what may very well be a precedent in major infrastructural project construction. In competition with Germany's Kraftwerke Union, a Canadian consortium backed by a substantial EDC loan of \$750 million was able to win a contract to build a nuclear reactor on the most unfavourable of terms that maximised the risks for the lender and minimised them for the buyer. So desperate was Canada to sell its CANDU reactor (the future of the Canadian nuclear industry may have depended on it) that it was willing to provide a package without a Turkish sovereign repayment guarantee. The terms of the agreement require the lender to build and operate the reactor. Then, by forming a company for this purpose, the Canadian contractor will be able to repatriate profits from the equity stake at guaranteed exchange rates. After a period of fifteen years the company and the plant will revert to Turkish control. In essence, the deal means that the Turkish government cannot be held responsible for either repayments default or accident. Although no aid money was involved in this deal it is possible that medium-scale projects where aid money is utilised will involve arrangements along the lines of this new "build, operate and transfer"(BOT) model. Jim Bodgener, "Turkey: Canada Provides Test Case for Development." Middle East Economic Digest, 4 (January 1986), pp. 30, 31.

<6> CIDA established a new set of ODA eligibility criteria in 1982. The three categories are: "core countries," which refers to the major recipients of Canadian aid; a "selective instruments" category in which smaller amounts of ODA are disbursed to middle income LDCs; and a third category of countries which are eligible only for very small amounts of funding through the Mission Administered Funds programme.

<7> Other important factors determining success are: price and quality, dependability, track record in a market and knowledge of that market, and technology transfer.

CHAPTER VII

ASSESSMENT AND REFLECTIONS

This study has been concerned with both practical and theoretical issues. The immediate purpose has been to describe the nature of the Canadian foreign aid programme and to explore the social and political forces that have shaped policy and practice. Attention has, therefore, been directed to the multiplicity of motives undergirding the programme; to the impact of recent trends in the domestic and international economy; to the policy-making process; and to the institutional constraints impeding the effective delivery of aid programmes and projects.

There are, however, broader purposes to the study. Firstly, a re-examination of the role and utility of foreign aid is timely, given the growing evidence of "aid fatigue," the retrenchment from multilateral institutions, and the commercialisation of bilateral aid programmes. Hence, one broad concern of this study is to arrive at an understanding of the reasons for this declining commitment to global welfare. The policies of a single donor -- Canada -- illustrate dilemmas common to all aid donors.

Secondly, policy trends in the aid issue-area represent one facet of a broader network of North-South relations. While a fuller assessment of the current state of this dialogue would require an examination of the more pressing issues of trade and monetary reform, debt rescheduling, global food security, etc., foreign aid

continues to be an important component of Third World demands for a New International Economic Order. (Spero, 1983: 164) Moreover, as ostensibly the most philanthropic and cooperative of issue-area interactions between North and South, aid acts as a sensitive barometer of current Northern perceptions and responses to the broader problems of the international economy generally, and the developing areas in particular.

Thirdly, and most importantly, a further set of 'broader issues' is more clearly bound up with theoretical and methodological issues within the discipline of political science. At the systemic level of analysis, an explanation of the motives and policies of Canadian aid is intended to throw light on the relative utility of the two contending analytic frameworks of state-centrism and interdependence. At a level of greater specificity, a second task has been to examine the aid policy-making process. The intention here has been to determine those domestic social and economic forces that influence the shape of the aid programme. This analysis was also intended to consider the utility of alternative explanations of foreign policy, such as the BP model and neo-Marxist conceptions of policy-making. A third, and most difficult, task has been to formulate a 'balance sheet' of the impact of the Canadian aid programme, particularly in the light of radical critiques of the programme and its ability to meet the stated objective of responding to the needs of the poorest groups in recipient states.

Finally, in the light of the evaluations made of the three theoretical components of the study, as well as the relationship between the aid programme and Canada's general response to the North-South dialogue, the central hypothesis of a domestically driven and increasingly self-interested programme is re-examined

here.

1. Interdependence Revisited

As an analytic framework for the study of international politics, the agenda of Interdependence scholars is focussed on the search for rule-guided or cooperative behaviour in the international system. In contrast to political realists, the issue of morality and values is a central concern for interdependence theorists. Johansen, for example, in his assessment of US foreign policy, uses as his reference point four preferred values of "global humanism." These values are peace, human rights and social justice, ecological balance and economic well-being, involving a redistribution of wealth to serve human needs. (Johansen, 1980: 382) Johansen is, at root, a functionalist in his aspiration for a preferred world order. However, his four case studies of US foreign policy uniformly uphold the realist "paradigm" since he found that US policy-makers gave highest priority to maintaining US global hegemony and promoting the well-being of US corporations. In the specific case of US aid to India, Johansen concluded that one of the least significant determinants of US policy was the unmet human needs of other societies. (Op.Cit.: 365)

Similarly, Hoffman (1981) has addressed the issue of whether nations have "Duties Beyond Borders." He sees the emergence of 'cosmopolitan values' as the product of the interdependence of today's world. Finally, in the specific case of Canada, Pratt (1984) has argued for a renewed attention to the moral dimension in Canadian foreign policy.

The creation of OECD and its Development Assistance Committee

constitutes, at first sight, strong supporting evidence for the existence of cooperative and rule-guided behavior in this most philanthropic of issue-areas. However, it is obvious that the various elements of the aid regime remain poorly integrated and regime maintenance has been made problematic by the weakness of compliance mechanisms. With the exception of some OPEC states, Sweden, Norway and Holland, the bulk of the donor community is still some distance from reaching the aspired ODA target of 0.7% of GNP.

Yet the moral basis for the successful maintenance of the aid regime is exceptionally strong, even as the alleviation of world poverty is one of the key issues of the North-South dialogue. Through the instrument of aid, donors have a unique opportunity to address the challenge of world poverty, while promoting at the same time a sense of good will that can only contribute to progress in other aspects of the North-South dialogue.

The Brandt Report(1980: 20) argued for an increased commitment to foreign aid on the basis of a "mutuality of interest." Its most novel proposal was for automatic aid transfers at predictable levels, disconnected from the uncertainty of national budgets. This could be achieved by an international levy in which aid revenues would be raised from global taxes on weapon manufacturing and deep sea mining. However, this vision remains a distant prospect, if, indeed, it is attainable at all.

Contrary to the recommendations of the Brandt Report, the current trends are in the direction of a retrenchment from the principles of the aid regime. The amount of aid provided by donors fell as a percentage of their combined GNPs from 0.5% in 1960 to 0.34% in 1980. It currently fluctuates in the region of 0.38% of GNP, or little more than half the UN-recommended figure of 0.7% of

domestic GNP. Major donors, such as the UK and US, have cut back on their commitments to UN organisations by as much as 10%. In the UK, the Overseas Development Administration has lost its status as a separate ministry, while the real value of the aid budget has fallen 15% between 1979 and 1986, a decrease that has occurred during the incumbency of Margaret Thatcher's Conservative government. (Guardian, 9.5.1986) Particularly disturbing has been the unwillingness of the US to maintain its commitments to IDA, which has been the main source of concessional funding for LLDCs. This decision was followed by a reduction in disbursements to the International Fund for Agricultural Development (IFAD). Also well publicised has been the decision of both the US and UK to withdraw their support from UNESCO. In sum, the waning support for multilateral institutions and the proliferation of associated financing mechanisms represent a critical threat to the viability of the entire system of international cooperation

Canadian policies have shown mixed support for the aid regime. On the one hand, the bulk of Canadian aid is in the form of grants or highly concessional soft loans. There has also been strong support for multilateral ODA, and the bulk of ODA has been directed to the low income countries. On the other hand, Canada has chosen to ignore DAC calls to reduce the levels of tied aid and is still a considerable distance from achieving the 0.7% of GNP target.

The case study of export credit mechanisms, furthermore, underlines most clearly the unwillingness of nations to abide by the rules of a regime when it is perceived that to do so would harm their short-term interests. While the Brandt Report deplores the use of such instruments which offend the spirit of GATT, and has argued that ODA blended into mixed credit packages to middle income

countries should not be counted as fulfilling aid targets, it is unlikely that these practices will disappear. While efforts have been made to improve reporting arrangements and induce more discipline in accepting set levels of interest (Cheney, 1985), voluntary adherence is hardly the most promising basis for compliance.

What are the reasons for this decreasing support for the aid regime? Political realists would have little difficulty in offering an explanation. Proceeding from the premise of nations as self-interested actors, realists would link the declining commitment to multilateral institutions and the commercialisation of the aid programme to the wider trend of Northern protectionism. These trends and the lack of progress in the North-South dialogue are fully comprehensible, given the recent recessionary global economic climate. Donor governments, organised principally to advance national interests, are obliged to bow to domestic pressures to make their aid programmes pay.<1> Moreover, from the realist perspective there would be little difficulty for donors to adjust their programmes accordingly. Foreign aid is essentially a power relationship in which the crucial decisions are made by the donors, who possess a monopoly of power and are able to set and adjust the agenda at will.<2> The evidence presented in this study certainly points in that direction. Yet the programmes of most donors continue to show a mix of philanthropic and self-interested motives. The Canadian programme is no exception. While there are clear indications of a trend towards the commercialisation of aid, Canadian ODA remains highly concessional, focussed on LICs and supportive of multilateral institutions. The Canadian aid programme thus reveals contradictory trends.

A theory which bridges the rather artificial divide between Interdependence and Realism is Rosenau's concept of preservative adaptation(1972, 1984). Rather than engaging in a sterile attempt to demonstrate the validity of one approach and the poverty of another, Rosenau's bridge theory caters to the existence of both trends and may offer a clearer explanation of the reasons for the contradictory motives underpinning the programme. Rosenau posits that states have built-in homeostatic mechanisms that trigger responses to changes in both the systemic and domestic environments. Foreign policy orientations are revised and resources reallocated in order that political and economic structures are not overwhelmed by rapid change. The current commercialisation of the aid programme is consistent with Rosenau's approach. Canada faces conflicting pressures and must balance the demands of domestic interests for neo-Mercantilist policies with external demands from the Third World for a more equitable international economic structure. Canada is caught in a perennial process of weighing the need to obtain domestic benefits with its wider objectives abroad. It is difficult in this policy environment to forge consistent policies to the developing world. This, and the sensitivity of government to domestic pressure groups, leads Canada to adopt conservative policies that are less oriented to achieving Third world development goals than to reducing their own vulnerability. (Raymond,1982: 12)

That Canada has not entirely dismantled the philanthropic aspects of its aid programme underlines, however, Ottawa's need to continue to project some semblance of Canadian internationalism and to respond to continuing domestic public support for foreign aid. In other words, issues of prestige and status continue to inhibit a more concerted commercial thrust to the programme.

2. Canada and the North-South Dialogue:
Wanted -- A Responsible Middle Power

Compelling reasons exist for Canada to at least maintain, if not expand, its traditional role as a bridge-builder and responsible middle power. In the first place, Canada has concerns and characteristics that straddle both the developed and developing worlds. It is, moreover, untainted by the stigma of a colonial past or the pretensions and preoccupations of great power status. It is therefore uniquely placed to conciliate the conflicting interests of both North and South.

Canada shares a number of common interests with the developing countries, which should make for a favourable attitude to Third World demands for a NIEO. As a resource-based economy and primary product exporter, Canada should be interested in efforts to stabilise the price structure of these products and thus ensure a minimum of order in the international commodities market. Secondly, Canada shares with many LDCs a heavy reliance on foreign investment and imported technology. Subsuming these specific interests is the broader interest of smaller trade-dependent economies in the healthy functioning of the international economy. Declining respect for international rules and the decay of multilaterally agreed dispute procedures are disproportionately more damaging to the smaller and more open economies. Middle powers and LDCs alike should be interested in the preservation and reinvigoration of multilateral arrangements. (Helleiner, 1984: 63) Unwillingness to address Southern interests or repair the various components of the international economy may lead, in the long term, to mutual injury. (Lewis, 1984)

Given these circumstances, there is considerable potential for middle powers to resume a stance of "responsible radicalism."

Canada is the most economically significant of the middle powers and is well placed to project a more assertive voice on North-South issues. John Holmes has recently argued that "Canada could resume a more imaginative and constructive role....It might be wise to raise a louder and less orthodox voice. Up to a point it is the vocation of lesser powers to act responsibly irresponsible." (Holmes, 1984) One way in which Canada could act more responsibly is by assuming a greater leadership role in North-South fora and on aid issues.

This Canadian potential on the world stage is demonstrated in Table VII.1 below, which underlines Canada's economic strength among Northern middle powers. As is clearly shown, Canada has by far the largest GNP of the Northern middle powers, a fact reinforced by its presence at the annual economic summits of the "Big Seven." Since economic strength is an increasingly salient parameter of power and influence in today's interdependent world, the potential exists for Canada to translate this economic prowess into more assertive foreign policy positions on key international issues, such as the North-South dialogue.

TABLE VII.1

Indicators of Middle Power Economic Importance		
NORTH	1983 IMF Quotas (Millions of SDRs)	1980 GNP (\$ USb)
Australia	1,619	168
Austria	776	78
Belgium	2,080	119
CANADA	2,941	274
Denmark	711	65
Finland	575	50
Netherlands	2,265	159
Norway	699	57
Spain	1,286	219
Sweden	1,064	120
Switzerland	-	108

SOURCE: Table III in G. Helleiner, 1984: 25.

Yet, with the passing of the Pearson era, Canada has rarely used its potential for responsible radicalism -- at least in matters relating to international development. Its voice has been far less assertive than that of smaller middle powers, such as Sweden and the Netherlands. While official rhetoric continues to promote a firm belief in the logic of "enlightened internationalism," actual policies have been pragmatically self-interested and, on occasion, inimical to the interests of the Third World. Contrary to claims that Canada has rejected a Hobbesian conception of world politics and that it possesses a voluntarist streak in its foreign policy(Hockin), recent Canadian behavior on the world stage -- particularly in economic matters -- has more in common with a Realist conception of international affairs. For example, a study by the Economic Council of Canada stressed that "moral arguments seldom constitute a sufficient basis for action between states."(in Pratt,1984:49) Ethical principles have rarely informed recent Canadian policy -- a trend that has been referred to as the "peripheralisation of morality."(Pratt,1984b: 2)

Evidence abounds of a more pragmatic preoccupation with short-run economic advantage, and any serious effort to mediate in the North-South relationship has been abandoned. This has been paralleled by a determined policy of "concentrated bilateralism" on those NICs and middle income LDCs with good market potential. The poorer LDCs with little trade potential are effectively being excluded from Canada's relations with the Third World and relegated to only an aid-based relationship with Canada. The recent streamlining of Canada's relations with the Third World has required the reorganisation of DEA into a virtual superministry, with a key role in the management of Canada's international trade -- a process

symbolised by the absorption of the international trade wing of the former DIT&C -- and the creation of a minister of international trade. Multilateralism, which is arguably an essential element of successful middle power diplomacy, is thus no longer a central concern of Canadian foreign policy, and the 1980s have seen, instead, the deepening of a process referred to as the "domestication" of Canadian foreign policy. (Tucker; Nossal)

On the issue of Third World demands for a restructuring of the international economy (NIEO), Canada has followed a pragmatic path, occupying positions midway between the most "preservative" or status quo powers (Japan and FRG, for example)-- which contend that the economic problems of the South can be cured by a combination of foreign investment, economic diversification and free trade -- and states, such as Sweden and the Netherlands, which adopt a "managerial approach" and which advocate debt relief, industrial restructuring and more central direction from strong international institutions. (Hart, 1981: 230) Canada is essentially supportive of the current structure of the international economy but has been more conciliatory towards the South than either the FRG or Japan, and has supported a case by case approach to debt re-scheduling, expansion of the general system of preferences and a code of conduct for the transfer of technology. (Raymond, 1982: 156) However, Canada has, until very recently, resisted the pressures for industrial restructuring as a consequence of rapid changes in the international division of labour, and has pursued protectionist policies, denying some NICs easy access to its own domestic markets.

In the context of foreign aid, Canada's continued recalcitrance on tied aid and its unwillingness to allow Third World procurement amply demonstrate an unwillingness to actively promote Third World

industrialisation. The use of parallel financing and the creation of an aid/trade mechanism underline the abandonment of ethical principles in an aspect of foreign policy where moral values should be a central concern.

3. The Policy Process: A Bias To Business

An important element in this study has been an examination of the aid policy process. Two theoretical approaches -- Bureaucratic Politics and Organisational Constraints -- were used to shed light on the determinants of policy. While not a central objective of the study, it was also hoped that this exploration would, in turn, contribute to a resolution of the debate on the choice of theoretical frameworks for the study of Canadian foreign policy. The major contenders in the debate are pluralist, statist and dominant class approaches. (Pratt, 1984: 108)

The BP model and the structuralist theory represent, respectively, pluralist and neo-Marxist explanations of the same phenomena, namely, the growing autonomy of the state in the social and economic life of nation-states. Both approaches attribute to the senior bureaucracy a leadership role in shaping the functional agenda of the state, moulding public opinion, and defining and pursuing the national interest.

Dewitt and Kirton (1983), for example, argue for a statist conception of recent Canadian foreign policy, but one fused with elements of political realism. In their portrayal, Canada's emergence as a "principal power" in an era of "complex neo-Realism" was marked by a centralisation of policy-making power in the state bureaucracy. Bureaucratic politics became a central feature of the

policy process as foreign policy was "domesticated" during the Trudeau era. In the context of aid, this led to a diversity of inputs from departments with domestic constituencies to maintain, and with different conceptions of the appropriate "shape" of the Canadian aid programme. While domestically oriented departments advocating a more commercial approach were probably the dominant players, the role of Prime Minister Trudeau should not be underestimated as one reason why the programme was able to withstand efforts to direct ODA in a largely commercial direction. (Berry, 1979)

In Dewitt and Kirton's view, the rapid expansion in the volume and geographic dispersal of Canadian ODA was the conscious promotion of an increased Canadian international presence and Canada's emergence as a "principal power." However, an equally important reason for this sudden expansion of ODA was the need to promote a sense of Canada's multiculturalism in the aid programme. By inaugurating a regional aid programme to francophone West Africa, Ottawa was able to preempt the independent international initiatives of Quebec and provide a symbol of its efforts to forge a precarious national unity.

While a muted version of the BP model has been operative throughout much of the short history of the aid programme, recent policy initiatives propelling the aid programme in a more overtly commercial direction (the growth of associated financing arrangements and TDF) appear, in their genesis, to have incorporated a high degree of consensus among the main departmental players. In particular, CIDA -- which may have been expected to have been resistant to efforts to link the aid programme with trade promotion -- emerged, in fact, as one of the strongest advocates of a commercialisation of the aid programme. The presence of consensus,

if not unanimity, in place of conflict and compromise, indicates that a BP approach is not useful as an explanatory model of the growing commercialisation of the aid programme.

A structuralist perspective offers more insight than the BP model for this emerging shift in the shape of the aid programme, but suffers, nonetheless, from inadequacies of its own. In essence, this approach argues that the relative autonomy of the state is an imperative fundamental to the survival of complex capitalist economies. Applied to the present case study, structuralists would argue that emerging domestic economic difficulties, coupled with adverse trading conditions in the international environment and rapid adjustment of the aid programmes of other donors, required the Canadian state to coordinate an economic strategy that would maintain the viability of the domestic economy. This new imperative or overarching national interest would also require a significant retrenchment from principles formerly upheld as fundamental to Canadian society and foreign policy -- the promotion of equity and alleviation of poverty under the aegis of the aid programme -- and a reorientation of the programme in a more commercial direction.

The principal difficulty with both pluralist and statist models is the absence of any serious attention to the relationship between state and society or the impact of particular interest groups. In the BP model, particularly, portrayals of the policy process are prone to being depoliticised. The evidence from this case study, however, upholds what Pratt(1984: 115-117) has referred to as a modified and non-doctrinaire version of the "dominant class" approach. This approach appears to offer the closest approximation to the complete range of factors determining the emergence of a more commercialised aid programme. The approach is essentially

instrumentalist in its attention to the links between state elites and dominant social classes. It does, however, accommodate the structuralist principle of relative state autonomy to mould opinion and define national interests. This accommodation avoids the worst reductionist excesses of both the pure instrumentalist and pure structuralist approaches. Support for the impact of societal influences is evident in the wide range and powerful influence of commercial lobby groups. The firm and deep-rooted links between these organisations and key policy-making departments -- DEA, Finance, EDC, CIDA, etc. -- underline the web of interconnectedness between the Canadian state and the corporate sector. In this view, the emergence of mechanisms such as the aid/trade fund and the expansion of links between CIDA and EDC are no accident. They represent the logical expression of a "corporate ideology" in Ottawa.

The existence of this ideology can also be demonstrated negatively -- by an examination of state responses to the "counter-consensus." In the context of aid, it is apparent that the pro-Third World 'developmentalists,' composed largely of NGOs and independent research bodies, have been singularly ineffective in stemming the commercial tide in aid policy. This absence of influence has been made more certain by official strategies of inattention and manipulation, or else by defusing and diverting the force of the arguments of the developmentalists.

4. The Quality of Canadian Aid

One aspect of this study has been the attempt to arrive at an assessment or balance sheet of the quality and impact of Canada's

aid programme. This task is, however, problematic, not only in view of the absence of consensus on what constitutes "quality aid," but also because it would require a comprehensive analysis of completed projects in different sectors (infrastructure, social welfare, etc.) and geographic areas -- a project well beyond the confines of this study. Evaluation is, therefore, inevitably prone to being impressionistic, although some objectivity is possible using criteria which can indicate whether commercial or development objectives primarily inform the programme.

A review of the shape of Canada's programme shows that the balance sheet is mixed, with entries on both sides of the credit/debit ledger. Features indicative of a continuing concern with developmental priorities include: (a) an ODA concentration on the low income countries (LICs); (b) a generous grant content; and (c) high levels of multilateral aid. The presence of a commercial orientation to the programme is evident in (a) the very high levels of tied aid and continued reluctance to reduce this figure; and (b) a sectoral concentration on capital-intensive infrastructural projects. Recent policy initiatives underlining a deliberate tilt in the commercial direction are: (a) the increased proportion of ODA to middle income LDCs; (b) the introduction of a variety of associated financing mechanisms, leading to a closer linkage of the aid and trade aspects of government; (c) the expansion of co-financing arrangements with Arab and OPEC aid agencies; and (d) the creation of a new Business Cooperation unit within CIDA with a significant allocation of personnel. The creation of this unit underlines the extent to which CIDA is being transformed into an economic intelligence agency for the corporate sector and charged with such tasks as seeking out new markets, undertaking feasibility studies

and preparing domestic firms for the rigours of competitive bidding in multilateral aid fora.

An indicator, which perhaps best summarises the tension between (a) philanthropic, internationally oriented considerations and (b) domestic self-interested constraints, is the rate at which the aid programme has been growing. During the late 1970s and early 1980s, the Canadian aid programme actually showed negative growth rates(OECD,1984). Since 1983, however, the aid programme has been growing again -- this despite two successive budgetary reductions by the Conservative administration. The programme is now projected to reach a target of 0.6% of GNP by 1995, although the magic target of reaching 0.7% (the UN recommendation) recedes into an ever distant horizon. While Canada can be commended for maintaining an aid growth rate of 8%, the absence of consistency in the rate underlines the fluctuating nature of Canada's commitment to international development.

An important element in assessing Canada's aid balance sheet is to evaluate the programme's response to the needs of the poorest groups in recipient states. The latest DAC report has argued that:

helping poor people in poor countries remains the most widely shared, essential and noble rationale of foreign assistance. Aid effectiveness must in the end be assessed against this criteria. Aid critics have a legitimate function in pointing to it as the core of aid. But they also have a responsibility to give due recognition to the complexity of the task.(OECD,1985: 260)

It was previously noted that the 1976 "Strategy" paper argued for a reorientation of the aid programme in the direction of Basic Human Needs. The independent Task Force on North-South Relations reiterated this position and argued that "the primary purpose of economic growth should...be improvement in the lives of the poorest

people."(1980: 12, 13)

There have been few detailed studies of the impact of Canada's aid programme. However, the North-South Institute has now produced four separate country analyses of the Canadian programme in Tanzania, Bangladesh, Haiti and Senegal. Bangladesh and Tanzania, disparagingly referred to as "basket cases", are among the poorest and least developed nations. As archetypal LLDCs they both serve as a "crucial case" of the efficacy and development potential of foreign aid.(Eckstein, 1975)

In the case of Tanzania, Young(1983: 104) has argued that Canadian efforts to improve the transportation system, energy distribution, urban water supply and wheat production were well placed, given the underdeveloped state of Tanzania's physical infrastructure. He concedes, however, that this was achieved at the cost of directing the benefits of Canada's ODA to the urban sector at the expense of the rural poor. In an earlier study (Freeman,1978), the sectoral concentration on infrastructure and urban groups was judged to contribute but little to the primary thrust of Tanzania's development policy during the 1970s, namely the "Ujaama" programme of villagisation.

Similarly, Erhardt(1983: 128-131) considered the impact of Canadian aid to Bangladesh to be generally low. While food aid, which made up 67% of Canada's bilateral disbursements, represented a saving of scarce foreign exchange, the bulk of it was directed to urban centres and government employees and little reached the poorest rural groups.

In a broader treatment of Canadian aid, Freeman(1978) found that 70% of total Canadian aid to Southern Africa went to infrastructure and resource development, a mere 10% to rural

development, 13% to education, and virtually nothing to health. The present study has also shown that the overall bilateral allocation to health, housing and water supply decreased from 10.3% in 1979 to 2% in 1983. These figures confirm Freeman's overall conclusion that CIDA has been largely unsuccessful in implementing a Basic Needs strategy. (Thompson, 1980) It has been the argument of this study that a combination of organisational constraints and successful lobbying from corporate interest groups effectively ensured the failure of this effort. It should be remembered, however, that even when poverty-focussed projects are carefully conceived, successful implementation and maintenance can founder if administrative structures at the recipient end are poorly developed. (Mosley, 1984; Kleemeir, 1982) Whatever the reasons, CIDA has conceded that it is unable to respond to the poorest groups and has handed over this responsibility to the NGO sector to which it has allocated a modest increase in funding.

5. The Future Shape of the Canadian Aid Programme: An Erosion of Commitment?

A government task force is currently nearing the final stages of its deliberations on the organisation and impact of Canada's foreign aid programme. It is due to report its findings to Madame Vezina, the Minister of External Affairs, in May or June 1986. This document will, in turn, form the basis for a major policy statement on the aid programme -- the first since the Strategy paper of 1976. The conclusions of the Task Force are awaited with interest.

The essence of this study, however, has been to demonstrate that the principal motive underlying Canada's aid programme has changed over time. During the 1950s, the strategic and ideological concerns

of the Cold War were the central preoccupations of aid policy-makers. During the 1960s and 1970s, both philanthropic and commercial motives were evident, and the aid programme was able to maintain a precarious balance between these opposing forces of commerce and philanthropy. However, in the 1980s, there are unmistakeable signs that Canada's aid programme is tilting in a more commercial direction.

Nonetheless, as of this writing, a sudden and unexpected policy decision on the part of the Canadian government begs a reconsideration of this conclusion. In addition to a slow-down in the projected growth of the aid programme announced in Finance Minister Michael Wilson's budget speech of 26 February 1986, came the announcement of a decision to scrap the Trade and Development Fund -- a project that had been cherished by both the Liberals and the Tories. Given the existence of aid/trade mechanisms among most of Canada's major OECD competitors, and the potential advantages that such a mechanism would bring to Canada's hard-pressed capital-goods export sector, the decision appears to be a major volte face. Is it conceivable that the decision to scrap TDF reflects a change of heart in Ottawa's corridors of power and the beginning of a commitment to delink aid and trade?

The decision to scrap TDF is likely to have originated in the Department of Finance. The reasoning can only be guessed at. It is possible that the project was scrapped with great reluctance and sacrificed in order to make possible a \$1.5 billion saving on the aid programme over a five-year period. This saving would make a contribution -- no matter how small -- to the reduction of the federal deficit of C\$34 billion. It has also been suggested that the decision was made because TDF ran counter to the Conservative

government's philosophy of "privatisation" and reduced government expenditure. (Doug Williams, personal communication) It is certainly difficult to believe, however, that ethical considerations were central concerns in the decision-making process.<4>

In addition to the scrapping of TDF, defenders of Canada's aid programme are quick to point out that foreign aid and defence were the only government programmes to have received real increases in the February 1986 budget. Moreover, External Affairs Minister Clark recently announced that a further \$200 million in ODA will now be converted from loan to grant form to ease the debt burden of the poorest countries. He also claimed that the NGO sector will receive increased support, although neither the amount nor proportion was specified. (Calgary Herald, 1 March, 1986) While these latter initiatives are intended to demonstrate that Canada remains committed to international development, neither these commitments nor the decision to scrap TDF significantly undermine the overall thesis of this study, namely, that the shape of Canada's aid programme has been significantly altered in a more commercial direction. Associated financing mechanisms will continue to flourish since, in the absence of a TDF, the government has plans to resurrect the virtually unused Section 31 credit mixte facility -- with EDC as the administrative instrument. Moreover, the aid programme will continue to assist Canada's export promotion drive through parallel financing of large-scale infrastructure projects involving CIDA and EDC funding, as well as CIDA co-financing with Arab and OPEC aid agencies. Finally, it is unlikely that the Business Cooperation unit -- which may now be the nerve centre of CIDA's operations -- will be dismantled.

The future shape of the Canadian aid programme lies in the realm

of speculation and beyond the strict confines of this study. A few points are, however, worth considering. Contrary to normative views of CIDA as an agency committed to the defence of developmental objectives in the aid programme, successive CIDA Presidents have shown a strong commitment to expanding the commercial side of the agency's activities. As early as 1978, former CIDA President Michel Dupuy saw the agency's role as an "economic intelligence agency" for the business community. (Freeman, 1978: 70) With the creation of the Business Cooperation Branch, Dupuy's vision has been realised. Of greater concern from a developmental perspective, were the proposals of the now defunct Department of Industry, Trade and Commerce. At the time of the policy debate surrounding the Strategy for International Development Cooperation, DIT&C argued for a "commercial aid" strategy and a change in emphasis from the "basket cases", that offered little potential for Canadian exports and a reorientation towards Latin American and Pacific Rim countries with rapidly expanding markets. (Ibid.,: 73) While a full blown commercial aid programme has so far been resisted, the modest increase in the proportion of aid directed to middle income countries may be indicative of a future area of concentration.

However, although clear evidence has been assembled of a commercialisation of the programme, there may be limits to the extent to which this process can go. Recent public opinion polls indicate continuing public support for foreign aid, and little indication that Canadians view the commercial potential of the programme as of primary importance.<5> Governments of either political complexion would thus be ill-advised to abandon entirely the developmental aspects of the programme. Much will depend, however, on the fortunes of the domestic economy in the coming

years. A continued recovery may allow the programme to continue growing at increasingly rapid rates of growth. On the other hand, a return to recession may mean a further erosion of commitment. In the short-term, just where the planned savings, accompanying the slow-down in the rate of growth, will be made is uncertain. A possible danger point is the level of allocation to multilateral aid fora. There may also be a diversion of aid funds away from LLDCs and towards the middle-income LDCs and even the newly industrialising countries. Of more immediate concern is the decision to freeze new appointments of CIDA personnel. The agency will thus be implementing a larger programme with the same number of personnel. This can only exacerbate the kinds of organisational constraints referred to earlier in this study.

Conclusion

Recent changes in the shape of Canada's aid programme towards a more commercial orientation have mirrored a broader reorientation of Canada's entire foreign policy. In place of the multilateralism characteristic of a responsible middle power, Canada's emergence as a "principal power" has been accompanied by a growing domestication of its foreign policy concerns and a pragmatic conservatism in much of its foreign policy behaviour.

The deliberate fashioning of deeper links between the aid and trade facets of government activity is a process that has transcended political parties and macro-economic philosophies. A combination of domestic "push" factors (the imperatives of economic renewal and the declining competitiveness of the export sector), coupled with international "pull" factors (the reduced ability of

LDCs to import capital-goods and the proliferation of export credits), has led Ottawa to undertake a refashioning of the aid programme to operate more effectively in the service of trade. The quiet ease with which both the Liberals and the Tories have been able to implement this transformation substantially reflects the pervasive presence of a "corporate ideology" in Ottawa acutely sensitive to the needs of "those louder voices of society."

A central debate in the field of foreign aid turns on the compatibility of commercial and philanthropic interests. This study has questioned the wisdom of mechanisms that blend aid funds into commercial export financing packages. While export promotion is a legitimate policy objective, the diversion of aid funds for that purpose is not. Moreover, these initiatives appear to compromise the developmental objectives of the aid programme at a cost to the domestic economy in excess of the supposed benefits. The current commercial emphasis has added significantly to the expectations placed upon CIDA which will, in turn, add to the dilemma facing policy-makers attempting to reconcile the contradictory motives of commerce and conscience in Canada's aid programme.

The changing shape of the Canadian aid programme strengthens the view that the traditional image of Canada as an honest broker and committed internationalist has become much less credible in the 1980s. Initiatives in the aid field underline, instead, a pragmatic and hard-nosed Canadian attitude to North-South issues generally. Paradoxically, at a time when many of the instruments of multilateral economic and political cooperation are under threat, and when there exists a special need for the responsible radicalism of middle powers, Canada appears to have become more parochial in its preoccupations and self-interested in its foreign policy

behaviour.

FOOTNOTES

- <1> Krasner (1978: 13), in his study of US foreign policy, upholds the Realist paradigm in which states are conceived as unified actors pursuing the national interest. This last concept he defines as a set of objectives which persist over time and have a consistent ranking of importance.
- <2> In a study examining the relationship between donor interests and recipient need, McKinley and Little found strong confirmation of a US aid relationship compatible with a Realist image of international relations. They found that the amount of US aid allocated to a given recipient is determined ultimately by the position of that recipient in the international hierarchy. See, R. D. McKinley, and R. Little, "The US Aid Relationship: A Test of Recipient Need and Donor Interest Models," Political Studies, 27, (1979) p. 248.
- <3> This argument should not be overstated, however, since there have been important exceptions, notably Mr Gerin Lajoie, who strongly supported Third World interests during his presidency of CIDA.
- <4> The influence of lobby groups may also have contributed to the governments decision to scrap TDF. Since much of the funding for the Fund would have come from CIDA bilateral, this would have meant a serious encroachment on the food aid allocation which accounts for 18% of the total aid budget. Farming groups in Western Canada appear to have been strongly opposed to TDF and any reduction in food aid levels, particularly given the current economic stringencies faced by prairie farmers. (Robert Miller, personal communication)
- <5> Recent opinion polls, including one undertaken for the Department of External Affairs, show that foreign aid continues to be highly valued by the Canadian public, which perceives its main purpose as humanitarian and developmental rather than commercial. See Decima Research Ltd, "The Canadian Public and Foreign Policy Issues," A Report Prepared for the Department of External Affairs. (Toronto: Decima Research Ltd. 1985).

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