

# **Does Aid Necessarily Lead to and Increase in Trade and Investment ? The Case of British Aid to Bangladesh : 1972-1986**

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**ABSTRACT :** *Existing theories of foreign aid, regardless of whether they speak for or against aid, commonly argue, either explicitly or implicitly that foreign aid to a country necessarily leads to trade and investment opportunities for the donor country. This paper examines this notion in the case of British aid to Bangladesh. Despite the fact that British bilateral aid from the seventies have shown an increasing tendency towards commercialisation, and an overwhelming amount of British aid is considered to be tied to purchases within Britain, there has been questions raised by several studies as to whether this had automatically created trade for Britain or not or whether the tying of aid has naturally led to the growth in British economy. The findings are that apart from generating consultancies (where British aid has proved lucrative), British companies did not benefit greatly from aid contracts. In the light of these findings one may therefore seriously reconsider the theoretical position that aid necessarily leads to an increase in trade and investment.*

The notion that foreign aid or development assistance can generate trade and investment opportunities for donor countries, is evident among those who advocate foreign aid as well as those who criticise it. Those who speak in favour of foreign aid usually justify it through growth-oriented theories of development ( for example, the Harrod-Domar model, Rostow's theory of the stages of growth and Chenery and Strouts' work on structural change and

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development policy ),<sup>1</sup> which argue that aid should be given for generating growth and investment in the recipient countries supplementing domestic resources.

These growth theories are premised on the argument that in developing countries, there exists a 'savings constraint', a balance-of-payment constraint and skill constraint which may limit their growth potential. These constraints represent the gaps between the demand and supply of capital, foreign exchange and skills respectively. It is argued that capital, labour and foreign exchange cannot be substituted for each other freely, thus the availability of foreign exchange in the form of aid to import capital goods from abroad, may prove to be the best possible way in which to generate growth and investment. In this sense, aid supplements domestic resources and the purpose of aid is to finance imports.

On the other hand, those who criticise aid ( among them writers of the neo-Marxist or dependency schools like T. Hayter, A. G. Frank and F. M. Lappet )<sup>2</sup> attempt to establish the theory that aid is used to promote class interest at home and abroad and the means used to do this is to exploit raw materials in the receiving country, look for trading and investment opportunities which give advantage to donor countries. In other words, it means that aid has commercial objectives for the donor, for example it provides benefits to British industry, directly by issuing exports to Least Developed Countries (LDCs) and indirectly by increasing economic activity in the donor country and facilitating the entry of donor firms into LDC's markets.

The purpose of this article is to address the question whether aid actually does create advantages in trade and investment for donor countries as mentioned above. It seeks

to test this notion in the context of British aid to Bangladesh (1972-1986). First, a brief account of the general aid policy of the British Government will be given. Second, the statistical evidence of (a) the tying of British aid to the purchases of materials and service within Britain will be described and analysed and (b) the comparative picture of aid, trade and investment figures between Britain and Bangladesh will also be looked at. Third, the findings of different research studies which have attempted to find correlations between aid, trade and investment figures in the British context will be discussed. In the conclusion the article argues that in the case of British aid to Bangladesh although a substantial amount of British aid has been used to finance British imports to Bangladesh it has not necessarily led to increased economic activity within Britain nor facilitated the entry of new British firms into Bangladesh.

### **British Aid Policies**

The recession of the seventies and the deterioration of the domestic economy of Britain helped to cause a shift in the orientation of British aid policy towards a more commercial bias. Thus just a couple of years after the 1975 White Paper on 'More Aid to the Poorest' was published, the British Minister for Overseas Development, at that time, Judith Hart (Labour), made the following statement on television on 21 February 1977 :

"If we are looking at the interests of our own people, the enlightened self-interest of Britain in other words, then the Overseas Development Ministry should be relating much more closely than it is to questions of our trade with the Third World, of the jobs that can bring to people in our own country. I think there's new dimension here which needs exploring and developing"<sup>3</sup>

The main outcome of this was of course the introduction of the Aid and Trade Provision (ATP) Scheme which had emerged in broad outline by July 1977. It arose out of political pressures generated by large UK manufacturing firms like British Leyland, and British Rail Engineering Ltd. and associated commercial bodies like the Confederation of British Industries (CBI) and the British Consultants Bureau on one hand, while the Ministers concerned saw it as a defensive measure.

"The Trade Minister saw it as a defence of the position of British exporters and thus indirectly of British manufacturing jobs. The Overseas Development Minister saw it as a defence in political terms of an overseas aid budget that at that time was planned to grow quite rapidly in real terms. Both Ministers, and their colleagues, would have been aware that a General Election had to take place in about two years' time and that unemployment was rising".<sup>4</sup>

This trend in British aid policy was consolidated when in 1980 the then Conservative Minister of Overseas Development, Neil Marten, reaffirmed in Statement to the House of Commons the importance of political and commercial factors in British aid policy :

"It is the Government's intention to retain within the global programme an 'aid-trade' provision for development projects of commercial and industrial significance to Britain, and so enable aid to be deployed to assist British industry, to take advantage of commercial opportunities. It is also the Government's intention to enlarge the unallocated margin within the programme to enable Ministers to respond more effectively to changed political requirements and situation".<sup>5</sup>

The purpose of the ATP is to help British firms secure orders in developing countries where the UK does not

normally provide aid or where the planned allocation is already committed. The institutional arrangements thus vary somewhat from other administrative procedures concerning the bilateral aid programme described in the previous section.

Table 1. British Bilateral Aid Flows to Bangladesh: 1972-1986

in £ thousands

Year	Project Aid	Non- Project Aid	Total Financial Aid	Total TC. A.	Total 3 & 4
1972	...	2363	2363	166	2529
1973	...	2052	2052	616	2668
1974	...	5541	5541	896	6437
1975	510	12736	13246	1050	14296
1976	2822	9607	12429	1286	13715
1977	7375	12863	20283	1753	21991
1978	21255	19842	41097	2872	43969
1979	12473	17380	29853	3835	33688
1980	26035	34960	60995	5195	66190
1981	17698	11140	28838	4545	33383
1982	3980	14395	18303	4673	22976
1983	3388	16455	19843	4884	24727
1984	8455	18353	26808	8848	35656
1985	16263	14132	30395	10778	41173
1986	15786	11614	27400	10921	38321
TOTAL	135968	203433	339401	62318	401719

\* T. C. A. - Technical Co-operation Assistance

Source : ODA, British Aid Statistics, 1976 : 1977; 1978; 1979; 1980; 1981; 1987,  
(London, Her Majesty's Stationary Office, (HMSO))

## Data Analysis

The previous section described the commercial inclination of British aid policy in general. Now the data relating to British aid in particular to Bangladesh will be dealt with.

### *(a) Aid-tying*

In the 15 year period under consideration here, non-project aid to Bangladesh constituted 50.64% of total aid committed, project aid constituted 33.85% and technical co-operation 15.51%.

It is commonly acknowledged that British firms and institutions. The following tables demonstrate the extent of this tying in aid committed to Bangladesh from 1972-1986.

The following Tables attempt to quantify the volume of tied aid going to Bangladesh. The source for this data is the UK/ BD Grant and loan agreements. This data consists of agreements relating to food, commodity and project aid only. It is pertinent to calculate the percentage of aid tying only so far as it is relevant to project and commodity aid, that is programme aid, because food aid, being within the framework of the EEC Cereals Food Aid Programme, cannot be considered to be tied in the same manner as commodity or project aid. Also, other non-project aid such as disaster relief or debt relief is accounted only when expenditure takes place and not in the form of prior agreement.

But before going on to the Tables, some note needs to be made about the definition of aid-tying. Tied aid is taken to indicate those agreements where the whole sum mentioned

in the agreement is to be spent for purchases of goods and services either produced or sold by UK manufacturers and dealers within Britain. In the case of "Invisible services", this can mean coverage of freight and insurance charges for shipment of cargoes to Bangladesh, in British registered vessels. The aid agreement may also be tied in the sense of requiring British consultants and personnel to oversee, supervise, and train local personnel.

The category of semi-tied aid has been used to denote those agreements where a portion of the grant or loan is to be spent for purchases within the UK and the remaining portion to be spent on local costs. Often the conditions of the agreement are that the Bangladesh Government should have a counterpart fund to provide for local costs, which the British Government provides for offshore costs. In this sense the actual amount of aid agreed to is not released for local costs and hence the agreement is regarded as fully tied. It is only when a certain portion (often determined by the donor itself) of the agreed amount of aid is released to be spent for local costs that the aid agreement is considered to be semi-tied.

Aid which is not tied at all implies those agreements where the amount allotted is not necessarily to be spent for purchases within the UK.

Table 2. Commodity Aid

pound sterling

Date	Agreement	Amount	Condition
26.2.72	UK/BD Loan No. 1 1972	1 435 000	tied
26.2.12	UK/BD Loan No. 2 1972	3 400 000	tied
18.5.74	UK/BD Loan No. 1 1973	2 000 000	tied
2.5.74	UK/BD Aid Grant & Loan No. 1 1974	3 000 000	tied

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10.10.74	UK/BD Aid Grant & Loan No. 2 1974	9 000 000	tied
16.10.75	UK/BD Fertiliser Grant 1975	5 000 000	tied
4.11.75	UK/BD Aid Grant 1975	10 000 000	tied
16.1.76	UK/BD Aid Grant (invisible services) 1976	2 000 000	tied
	UK/BD Aid Grant (invisible services) No. 2 1976	2 000 000	tied
22.9.76	UK/BD Aid Grant & Loan for Purchase of Raw Materials from LDCs 1976	2 000 000	Semi-tied
10.3.77	UK/BD Commodity Aid Grant 1977	15 000 000	tied
25.1.78	UK/BD Commodity Aid Grant No. 1 1978	(10 000 000)	
23.8.78	Amended	30 000 000	
25.9.78	UK/BD Aid Grant (invisible services) 1978	2 000 000	tied
25.9.81	UK/BD Commodity Aid Grant 1981	15 000 000	tied
21.11.82	UK/BD Commodity Aid Grant 1982	10 000 000	tied
29.12.83	UK/BD Commodity Aid Grant 1983	10 000 000	tied
10.3.84	UK/BD Commodity Aid Grant 1984	(10 000 000)	
	Amended	25 00 0000	tied
15.7.85	UK/BD Commodity Aid Grant 1985	10 000 000	tied
86	UK/BD Commodity Aid Grant 1986	10 000 000	tied
TOTAL		176 835 000	

## Calculations from Table-2

Semi-tied	20 000 000
tied	174 835 000
% of tied aid	98.87%

Source : ODA, British Overseas Aid 1986 : Annual Review (London, HMSO) and data collected by author from ODA, London.



Table 3. Food Aid

Date	Agreement	Wheat in metric tons
28.8.74	UK/BD Food Aid Grant 1974	70 000
27.4.77	UK/BD Food Aid Grant 1977	20 000
3.3.81	UK/BD Food Aid Grant 1980	28 000
TOTAL		118 000

Table 4. Project Aid

in pound sterling

Date	Agreement	Amount	Condition
1. 28.7.75	UK/BD Project Grant 1975	25 000 000	
1.1 28.7.75	Ashuganj fertiliser plant	8 000 000	tied
1.2 30.6.75	Police telecommunications	720 000	tied
1.3 6.4.77	Ships for BD Shipping Co.	2 800 000	tied
1.4 18.4.77	Adarsha & Mohim Textiles	7 140 000	tied
1.5 10.10.77	Neemgachi inland fisheries (With UK/BD Aid grant & Loans 1976)	435 000	semi-tied
1.6 24.5.78	Grain storage rehabilitation (with 1.3m from UK/BD Cmdt. Grant 1976)	351 000	tied
1.7 27.10.78	Cotton development vehicles	145 000	tied
1.8 27.3.79	Sugar tubewells	275 000	tied
1.9 30.10.80	Water treatment Plant	933 000	tied
		<u>20 799 000</u>	
II. 3.6.75	UK/BD Population Project Grant 1975	1 400 000	not tied
III. 10.1.76	UK/BD Natural Resources Sector Aid Grant 1976	2 000 000	
3.1. 24.5.78	Grain storage	1 618 000	Semi-tied

IV.	16.176	UK/BD Project Grant 1976	30 000 000	
	11. 11.76	UK/BD Project Grant No. 2		
		1976	15 000 000	
4.1	27.2.76	Dhaka power distribution system	27 200 000	tied
4.2	30.3.76	Bholaganj Rock project	1 009 000	tied
4.3	14.4.78	Railway rehabilitation ammended (with UK project grant '78)	(29 160 000) 35 837 000 64 046 000	tied tied
V.	13.4.78	UK/BD Project Grant 1978	(20 000 000)	
	28.8.78	Ammended	45 000 000	
5.1	14.5.79	5th well on Titas gasfield	(1 210 000)	tied
	17.4.83	ammended	1 834 710	tied
5.2	11.5.82	Greater Dhaka power dist.	9 100 000	tied
5.3	12.10.84	Roads, highways, ferries	337 000	Semi-tied
			11 271 710	
VI	1.9.81	UK/BD Grant 1981 : Ashuganj power plant	4 680 000	tied
VII.	4.83	UK/BD Sectoral Grant No. 1 1979, 1983 & 1984 : Tea rehabilitation ammended	(22 000 000) 25 000 000	semi-tied
VIII.	7.9.84	UK/BD Project Grant 1984 ammended	(25 000 000) 30 000 000	
8.1	15.3.84	2nd rural development proj.	6 660 000	
8.2	27.5.84	Railway wagon workshop	1 800 000	
8.3	11.11.84	Dhaka II power transmission & distribution	15 824 000	tied
8.4	11.11.84	Ashugaj power project	9 456 000	tied
			33 740 000	
IX.	7.1.85	UK/BD Livestock Development Project 1985	1 452 000	tied



are either unobtainable in the UK or can be obtained significantly more cheaply in the designated countries than from UK."<sup>6</sup>

(3) In the Table of project aid agreements, it can be noted that both multi-project agreements and specific project agreements (explained earlier) are listed. The credit limit quoted in the multi-project agreements often takes several years to be fully allocated to specific project proposals : or often the agreement for an especially large budget project is proposed, it may be entered into under several multi-purpose agreements. This can be seen in the case of the Railway Rehabilitation Project which was contracted under the UK/BD Project Grant 1976 and 1978.

(4) In Bangladesh there have also been several cases of amendments introduced in the project agreements, both in terms of the amount allocated as well as the adjustment of dates.

(5) Projects are often cofinanced with other multilateral or bilateral donors. Out of the 28 specific projects listed above, seven are co-financed. The co-financiers are often international agencies like International Development Association, or Asian Development Bank, or other bilateral donors such as the USA, Switzerland and Germany.

(6) The clauses of aid tying in project aid are not as clear as they are in commodity aid agreements. This will be elaborated in the next section. As a project may have many facets and components within it, the conditions may therefore vary accordingly. Generally, according to the categories of aid-tying elucidated before, it has been found that about 74.5% of projects are fully tied, 28.1% semi-tied and 5.4% untied.

*(b) Comparative Data of UK Trade and Investment*

In the section above, the nature and conditions of aid-tying have been discussed in detail. In this section data on British trade and investment in Bangladesh has been presented in order that the relations between aid, trade and investment may be better understood insofar as they have any relevance to the formulation of British aid policies.

Table 5. UK BD Imports in £ thousand pounds

Year	Total UK Imports			Imports from Bangladesh		% of total
1972	11	072	855	-	-	-
1973	15	723	550	16	660	0.10
1974	23	138	916	15	511	0.07
1975	24	046	408	8	643	0.03
1976	31	084	110	23	644	0.08
1977	36	219	082	25	590	0.07
1978	39	532	989	40	712	0.10
1979	46	924	871	62	273	0.13
1980	49	772	862	73	076	0.15
1981	51	168	579	15	063	0.03
1982	56	978	227	25	538	0.04
1983	69	993	096	25	189	0.04
1984	78	705	170	46	506	0.06
1985	84	789	605	35	348	0.04
1986	86	066	650	34	117	0.04

Source : DTI Overseas Trade Statistics of the United Kingdom 1973 to 1987, (London, HMSO)

Table 6 UK-BD Export Trade

in £ thousand pounds

Year	Total Exports			Exports to Bangladesh		% of Total
1972	9	602	331	-	-	-
1973	12	087	021	18	214	0.15
1974	16	309	175	11	542	0.07
1975	19	606	870	15	186	0.08
1976	25	276	554	28	631	0.11
1977	31	990	087	30	641	0.09
1978	35	380	332	68	054	0.19
1979	40	636	953	90	080	0.22
1980	47	363	937	110	430	0.23
1981	50	998	080	45	210	0.08
1982	55	557	843	58	152	0.10
1983	60	533	692	50	979	0.08
1984	70	511	845	51	591	0.07
1985	78	331	360	69	420	0.09
1986	73	009	049	48	218	0.07

Source : TI Overseas Trade Statistics of the United Kingdom 1973 to 1987 (London, HMSO)

Tables 5 and 6 give a picture of UK exports to and imports from Bangladesh. The following points seem obvious :

(1) The proportion of British trade to Bangladesh as compared to the total trade of Britain, is very low. In fact it has always been less than 0.5% of the total UK trade with the world. This is interesting when compared to the fact that Bangladesh happens to be the second largest recipient of British aid to date.

(2) The main UK import from Bangladesh are foodstuffs, such as seafood, and tea, tobacco, jute and jute products, leather and leather goods, and garments. The main items exported from UK to Bangladesh are dairy products,

machinery and transport equipment, manufactures, iron and steel goods and petroleum and chemical products.

(3) A persistent balance of payments deficit against Bangladesh is to be noted in its trade with the UK.

(4) The evidence from the previous Tables and discussion suggests that almost half of British aid to Bangladesh goes towards the financing of British exports to Bangladesh. To make an approximate estimate of this financing, the category of total financial aid in Table 1, has been used. This is an approximation because total financial aid excludes technical assistance, but includes project and non-project assistance. Some aspect of project aid may be tied to local costs, and some aspects of non-project aid like disaster relief may not be tied at all. However, in absence of adequate data, this category has been used to arrive at a close approximation of the actual amount of exports financed by British Aid. It was calculated that British aid financed about 48.7% of British exports in Bangladesh for the period ranging from 1972 to 1986.

The following Tables present data on British net investment for the period ranging from 1972 to 1986.

Before proceeding to analyse the Tables, however, a few words need to be said about the definition of categories employed here, that is, the concept of net investment and earnings from net investment. Direct net investment (outward) comprises net investment by British companies in their overseas branches, subsidiaries or associated companies. Transactions of government department, the CDC, oil companies, foreign owned insurance companies are excluded. The figures of outward investment cover the transactions of a number of public corporation namely, the

British Steel Company, British Airways, the Gas Council and Cable and Wireless. Net investment include unremitted profits.

Net earnings equal profits of overseas branches and UK companies, receipts of interest and their share of profits of overseas subsidiaries and associates. Earnings are calculated after deducting provisions for depreciation and overseas tax on profits, dividends and interest.

Table 7. British Net Investment in Bangladesh in £ millions

Year	Total Net Private Investment (a)	Net Investment private in Bangladesh (b)	% (b as % of a)
1972	736.8	-	-
1973	1620.8	0.9	0.05
1974	1575.5	0.9	0.06
1975	1094.2	-	-
1976	2144.8	2.7	0.13
1977	1884.8	4.0	0.21
1978	2709.7	3.2	0.11
1979	3034.6	-4.5	-0.15
1980	3390.7	1.2	0.03
1981	4671.2	2.6	0.06
1982	2245.2	3.6	0.16
1983	3199.3	11.5	0.36
1984	5929.0	3.0	0.05
1985	8836.0	-5.0	-0.05
1986	11641.0	-1.0	-0.01

Source : Dept. of Industry Business Monitor (M4),  
Overseas Transaction 1977, 1986 (London, HMSO)



**Table 8. Net Earnings from British Investment in Bangladesh**  
in £ millions

Year	Total Net Earnings	Net Earnings from Bangladesh	%
	(a)	(b)	(b as % of a)
1972	911.3	-1.2	-0.13
1973	1449.7	0.7	0.05
1974	1489.7	1.4	0.09
1975	1583.1	1.9	0.12
1976	2383.4	4.3	0.18
1977	2293.0	7.3	0.32
1978	2346.5	6.1	0.26
1979	2843.1	2.4	0.08
1980	2933.4	3.1	0.10
1981	3545.7	3.8	0.10
1982	3084.6	6.1	0.20
1983	4051.0	15.3	0.38
1984	7725.0	11.0	0.14
1985	7668.0	3.0	0.04
1986	7601.0	4.0	0.05

Source : Dept. of Industry Business Monitor (M4), Overseas Transaction 1977 1986 (London, HMSO)

(1) The figures for investment in Bangladesh as compared to total UK overseas investment figures are very low, that is hardly constituting 0.50% of the total (outward) net investment of Britain. The highest level of investment was recorded at 0.36% of the total in 1983, and similarly the highest level of earnings recorded at 0.38% of the total, also in 1983.

(2) Investments were increasing from 1978. In 1979 a disinvestment of £ 4.5 million took place. Similarly, earnings rose 1976 to 1978, and dropped markedly until in

1982 they took an upward trend again. Both net earnings and investment fell after 1983.

(3) But although investment may be at a low level to Bangladesh the profit yielded by it is quite high. for the period 1972 to 1983, it is estimated that about 69.2 million pounds were earned while investments totalled 23.1 million pounds. In November 1979, the chief executive of Bangladesh Oxygen Ltd. (BOL), 60% owned by the British Oxygen Company, was reported to have told the Far Eastern Economic Review that the investment climate in Bangladesh was bright. He said, "All of us are making a lot of money. we operate in a sheltered market."

(4) Although aid can be seen to be more directly related to British exports than to British investment, some of the areas to which British aid is channelled are those where British interests predominate. One example of this is the tea estates, where the tea rehabilitation project funded by the ODA is being carried out. Three British Companies (James Finlay, Inchape, Lawrie Plantation Holdings, which owns Duncan Brothers), which have tea interests in Bangladesh, produce 58% of the country's tea.

The data above bear testimony to the fact that even with a low level of trade and investment, British interests have an important impact on the Bangladesh economy in general. However, this does not necessarily mean that British aid to Bangladesh provides or seeks to provide an impetus to British trade and investment in that country an argument which is put forward by dependency theories of the New Left. In the following Tables I explore the possible correlations between aid, trade and investment in the Anglo-Bangladesh relationship.

Table 9. Comparison of Largest Ldc recipients of British Aid and Trade

Top 10 recipients of aid 1972 to 1986			Top 10 recipients of export 1972 to 1986		
Country	£000	%	Country	£000	%
1. India	145 948	21.80	Saudi Arabia	12 245 628	1.93
2. Bangladesh	286 569	5.45	Nigeria	11 622 500	1.83
3. Kanya	221 255	4.20	Hong Kong	7 267 298	1.15
4. Pakistan	181 728	3.46	India	7 249 684	1.14
5. Sudan	165 503	3.15	Iran	6 601 494	1.04
6. Zambia	164 243	3.12	Singapore	4 587 854	0.72
7. Tanzania	161 230	3.07	Iraq	4 484 413	0.71
8. Sri Lanka	160 939	3.06	Israel	4 168 399	0.66
9. Malawi	124 189	2.36	Egypt	3 687 285	0.58
10. Zimbabwe	101 380	1.93	Brazil	3 183 996	0.50

Source : Calculated from ODA British Aid Statistics (1972; 1973; 1974; 1975; 1976; 1977; 1978; 1979; 1980; 1981; 1982; 1986) Dept. of Trade and Industry (Overseas trade statistics of the UK (1973; 1974; 1975; 1976; 1977; 1978; 1979; 1980; 1981; 1982; 1986) (London, HMSO)

Table 10. Largest Ldc Recipients of British Net Investment and Net Earnings From Investment

Top 10 Recipients of Net Investment			Net Earnings From Top Investment		
Country	£ millions	%	Country	£ millions	%
1. Brazil	1368.2	2.51	Brazil	1670.7	3.06
2. Hong Kong	1272.2	2.33	Hong Kong	1662.2	3.22
3. Bermuda	972.0	1.78	Nigeria	1521.7	2.93
4. Singapore	700.3	1.28	Malaysia	1283.7	2.48
5. Nigeria	685.0	1.25	Singapore	1120.7	2.16
6. Zimbabwe	396.9	0.73	Gulf States	1116.4	2.15
7. India	297.5	0.55	India	674.1	1.28
8. Argentina	280.0	0.51	Zimbabwe	547.1	1.06
9. Zambia	237.4	0.43	Kenya	402.0	0.77
10. Gulf States	165.5	0.30	Argentina	397.5	0.77

Source : Dept. of Industry, Business Monitor (M4) Overseas Transaction. 1972. 1983 (London, HMSO).

Table 9 compares the top ten recipient of British aid to the top ten recipients (among LDCs) of UK exports. Table 10 gives a picture of the largest recipients among LDCs of British net investment and sources of net earnings.

What emerges from the data is the following :

(1) Among the top ten recipients of aid, India was seen to be the only country which featured as a large recipient of UK exports as well. Bangladesh did not come near to being in the list of major trading partners of the UK.

(2) Among the countries receiving a large portion of British investments and gaining a high return from them, were India, Zimbabwe, Zambia and Kenya, all four receiving a large portion of British aid as well. Here too, Bangladesh had no place in the top ranks.

(3) Thus, apart from the four countries above, Britain's main trading and investment partners are not among those which receive the largest aid. Trade is carried on mostly with countries like Nigeria, Saudi Arabia, Iran, Hongkong, Iraq, Israel, Singapore, Brazil and Egypt, while British investments in the LDCs are mostly found in Brazil, Nigeria, Hongkong, Malaysia, Singapore, Bermuda, Argentina and the Gulf States, together with those aid receiving countries mentioned above.

In the data presented above, we thus see that although on the one hand, British aid is largely tied to purchases of British goods and services, on the other hand this does not seem to affect the overall trading or investment pattern between Britain and Bangladesh. Looked at from the global and regional perspective, Bangladesh constituted (in the period concerned) one of the minor trading partners of Britain. The only significant point in this pattern of relationship was that the profit returns from whatever individual investment was relatively high.

## Critique

Several studies have been conducted which legitimately asked whether aid has actually led to trade for Britain or not, and whether this has been of significance to the growth of the lessons learned from their findings.

Most studies of this sort have tended to concentrate on the balance of payments effects on the economy. However three studies have been conducted which focuses on the impact on British companies. The first study by R. S. May and N. C. Dobson covers the period from 1914 to the beginning of 1978,<sup>8</sup> the second by R.S. May covers the period 1979-1983.<sup>9</sup> and the third by R.S. May in collaboration with D. Schumacher and M. H. Malek is an evaluation of the impact of aid expenditure in the domestic economics of the UK and Germany at both macro and micro levels.

What is relevant to note here is that all studies tended to show that aid was not automatically trade-creating. In the first study, May and Dobson maintained :

".... 90% of the firms said that the market to which the aid order was supplied, was an already established one, often with a long history of goods supplied under normal commercial arrangements to that particular country, and that they could not explain why it was that one of these long series of orders should suddenly be financed in this way.

They were usually certain that they would have received the order in any case eventually and that aid-finance had not won them any extra business. In other words aid was not trade-creating"<sup>10</sup>

In the later report the impact of aid finance differed between ATP and other contracts, being substantially greater per pound of aid finance in the former case. Here too, almost all firms already had considerable commercial experience with the recipient developing countries and most had obtained their orders after competitive bidding. Few companies stated that new jobs had actually been created by this business, and in most cases the numbers were small. The impact on the companies' investment plan was much weaker than that on their employment and trade, exceptions occurring in rare cases of large ATP-funded projects. The prices charged and profits made were also roughly the same as made in normal commercial transactions. The impact on consultancies under technical aid were however stronger.

In the third study of May, Schumacher *et al* the broad picture was such that with a handful of exceptions, aid finance constituted only a very minor source of business for these industries. It was welcomed and could bring useful additional commercial orders in individual cases, but the industries' prosperity clearly depended on other factors. In other words, aid has not been used deliberately to help ease the structural adjustment problems of declining industries or those facing particular problems. At the individual company level, the distribution of individual British firms receiving aid-financed orders were markedly asymmetrical, with over three-quarters of such business going to less than 5% of the companies.

Finally, a study by O. Morissey,<sup>11</sup> examines the role of the business lobby in decision-making or the composition and allocation of the UK aid budget 1978-1987. His conclusion is that despite increasing commercialisation of aid

in the years of Conservative rule, the aid budget fell by over a third in real terms between 1979-1987, and the real potential impact, the measure of direct commercial benefits, fell over by a quarter. Moreover it was seen that although the elements of the lobby were a core part of the consultation process, they have had only minimal influence on government aid policy. On this issue, there is little evidence of the power of business.<sup>12</sup>

Despite these findings, however, there is a trend of thinking within the business lobby that, at the individual level of companies, aid contracts do have a good pay off in getting them subsequent deals especially in less developing countries.<sup>13</sup> In another study it was found that "only for small minority of companies, usually those with substantial overseas interests, particularly in the less developed markets, aid was of substantial commercial importance not only for the direct business which it brought in but also for its further stimulating effects on trade. For the great majority of the companies, however, this type of business played a very minor role although it was always acceptable and management invariably was keen to obtain more of it."

Such findings about aid and business relations confirm the Report presented by the Select Committee on Overseas Development in the parliamentary session of 1977-78 that aid policy-making in Britain is oriented to being more a reactive process involving a short term perspective rather than being strategic, proactive and long term. The attempt to coordinate aid and trade policies together thus reflects the need of the government to deal with world recession and its impact on the economy of the country, the need to placate demands arising from the industrial lobby and at the same time to keep the electorate satisfied.

## Conclusion

The foregoing analysis thus suggests that though British aid to Bangladesh may have financed a substantial portion of British exports to that country, British companies in general (exclusive of consultancy firms for whom the 'aid business' had proved lucrative) did not owe their profits to aid contracts. Nor did British aid help the attraction of new investments in the area. Rather it was found that the companies which did receive aid contracts were those who were already well established in the region. This may not be the case of British aid to India or to Kenya, where both the countries are significant recipients of British aid as well as important trading partners.

This leads one to seriously reconsider the theoretical positions stated in the beginning of the article, that is, aid necessarily leads to trading advantage and newer investment opportunities for the donor country. A review of the situation of British aid to Bangladesh may very well lead one to ask why if British companies are not necessarily profiting from aid contracts, is aid still being given to Bangladesh. It may mean that the answers are located in the political or strategic motives of the donor rather than in its commercial motive.<sup>14</sup> Anyhow, the purpose of this article has been merely to raise this question, not to resolve it and, therefore, it concludes with the hope that future advocates as well as critics of foreign aid will address themselves to this issue.



## Notes and References

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14. See the following for an alternative analysis of the motives behind donor aid policy : M. Guhathakurta, *The Politics of British Aid Policy Formation Towards Bagladesh : An Analytical Model* (Dhaka, Centre for Social Studies, 1990.)