



# THE IMPACT OF FOREIGN AID IN ECONOMIC DEVELOPMENT OF INDIA

**DR. KRISHNA MURARI GOSWAMI**

ASSISTANT PROFESSOR, NAGAR NIGAM DEGREE COLLEGE, LKO

Email: [vivek.tiwari020@gmail.com](mailto:vivek.tiwari020@gmail.com)

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\*First Author / Corresponding Author; Paper ID: C16306

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## Abstract

The role of foreign aid in accelerating India's economic progress, in the pre and post liberalized era are to examine the problems relating to utilization of aid and the debt-servicing burden and suggest a policy framework for achieving the global of self-reliance in the near future. The proposed work is organized in nine chapters. The concept of foreign aid and the characteristic of Indian economy with reference to the rationality of utilizing institutional foreign aid in Indian context are analyzing.

**KEY WORDS:** Assistance, Capital formation, Infrastructure.

## 1. INTRODUCTION

The economic development of India especially in the post – liberalized phase is a glorious scenario in the history of international economic cooperation. Foreign aid from countries professing different ideologies as well as U.N. and other international institutions, has made a significant contribution to her planned economic development. Besides helping in the exploitation of untapped natural resources and building up the infrastructure, aid has also played a crucial role in the roll-round industrial development of the country. In fact, foreign aid contributes towards three things, viz., (a) to make available additional supplies of foreign exchange, (b) to supplement domestic savings and (c) to facilitate transfer of technology. The external to which the institutional foreign aid can contribute to the development of the productive capacity of the economy deepens on the judicious use of foreign aid, the effort and the total disposable resources of the recipient country. At the same time, its accuracy creates growth potential far beyond the point where it is applied. Besides, the import of capital goods may release non-aid resources for increasing the current consumption while aid in terms of consumer goods may help release domestic resources for capital formation. Although the share of the net aid in the total plan expenditure has been declining after the Seventh Plan and has been less than 20 per cent since the

8<sup>th</sup> Plan, the gross disbursements of aid have been increasing rapidly, adding to the heavy external debt-burden. The mounting debt-servicing obligations have put a severe strain on India's balance of payments for long and even during recent years.

Foreign aid acts as a helping hand but finally ultimate objective of Foreign aid is to help the recipient country in attaining self-sustained and self-generating growth, without relying on foreign aid, within a reasonable period of time.

India's endeavor towards attaining self-reliance were frustrated by several national and international developments, such as the two world oil crises, international monetary crisis, growing protectionism in the developed countries and recently Iraq's crisis with allies. The growing fiscal and budgetary deficits and increasing reliance on deficit financing have aggravated the problem further.

## **2. Review of Literature**

The role of foreign aid in the economic development of India with special reference to five years plans has been taken up in which also illustrates its role in financing and its distribution – rationality during plan period. It thus, becomes essential to clarify plan-wise utilization of foreign aid, and per capita, and authorization and utilization and its related concepts.

To justifies the rationality of foreign aid. It illustrates country-wise assistance and thereafter explains Institution wise assistance. Recently institutions like WB and IBRD etc. have been increasingly supportive in terms of aid for developing nations. Their assistance to India is reflected in the fact that each year indicator of the Bank's increased interest in India's economic development.

## **3. Impact of foreign aid**

Foreign aid is meant to do three things, viz., (a) to supplement domestic savings, (b) make available additional supplies of foreign exchange, and (c) facilitate transfer of technology. The extent to which foreign aid can contribute to the development of the productive capacity of the country depends, on the judicious use of foreign aid; the effort and the total disposable resources of the recipient country. Besides, foreign aid creates growth potential far beyond the point where it is applied. The import of capital goods may release non-aid resources for increasing the current consumption while aid in terms of consumer goods may, in effect, help

release domestic resources for capital formation. Therefore, it is difficult to assess the impact of aid precisely. Consequently we shall discuss the significance of the participation of aid in creating productive capacity.

**1. Foreign aid has helped to raise the level of investment.** The rate of investment has substantially increased from the annual level of over 10 per cent of the national income at the beginning of the First Plan to nearly 25 per cent of the national income. With this increase in the rate of investment the foreign exchange outlay had also to be correspondingly increased which was beyond the resources of the country. Ever since 1972-73, the country has faced serious foreign exchange crisis. But for aid, it would have been well nigh impossible for the country to tide over this difficulty.

**2. Aid used to stabilise food prices and import raw materials.** Of the total aid utilised, a significant proportion represented aid in kind or commodity, the bulk of which has been utilized to import foodgrains which played a significant role in stabilising foodgrain prices. A part of the aid has been used to import raw materials or spare parts in short supply in the economy and this contributed substantially to increase in production in the country.

**3. Aid used for the enlargement of irrigation and power potential.** External assistance has contributed to the productive capacity of agriculture in a big way by enlarging the irrigation potential of the country. In the field of dairy and fishery, foreign aid has helped to modernize the technique of production. Foreign aid has, in a big way, helped enlarge power potential of the country. It has enabled the country to import machinery and equipment which has helped to increase the installed capacity in the country (from 2.3million K.W. in 1950) to (113 million K.W. in 1999-2000).

**4. Aid for improving transport.** Transport absorbed large proportion of total utilized aid, i.e., 14 per cent, out of which 12 per cent has gone to the railways. It has played an important role in the renovation and modernization of the railway transport and it has helped to increase the rolling stock and locomotives.

**5. Aid used for building up steel industry.** Foreign aid has played an important role in the creation of capacity in such a basic line of production as steel in the country. Over eighty per cent of the amount of aid utilized by manufacturing industry has gone into the expansion and creation of capacity in the steel industry. The necessary aid was received from West Germany, erstwhile U.S.S.R. and U.K.

**6. Aid used to develop petro-chemical and electronics industry.** India is making efforts to develop the complex of petro-chemical and electronics industries. The 'sunrise industries', as they are generally referred to, are the harbingers of new industrial revolution in the world. This cannot be accomplished without the help of foreign aid and Government is now making all-out efforts to modernize our industrial structure by entering into foreign collaborations.

**7. Aid used to enlarge technical resources.** External aid has also helped to enlarge technical resources through: (a) the provision of expert services, (b) training of Indian personnel and (c) helping the establishment of new or the development of existing educational research and training institutions in the country.

#### **4. Conclusion**

The vision has to be broader looking into the universal aspect. This could not lead to achievement of the objective for priority international economic co-operation for establishing world peace and better harmony. International agencies like United Nations or its subsidiary organization must come forward in the radical way to play a crucial role in enhancing economic co-operation between the 'developed' and the 'developing'. Keeping this in view even UNCTAD has recommended the developed countries to accelerate the share of and out of their GNPs to developing countries. However, it is disheartening to note that only a few of them are interested.

This non-inclination of supporting by way of and to the ready countries can be attempted to a number of factors like (a) recently the storage, economies of America & Europe has been attracted more towards forging greater regional and economic co-operation. (b) The demand for and has been also raised from enormous like Russia and China which could be more self-supportive. (c) The World Bank and allied have played a reluctant role in providing resources to the multinational and institutional foreign aid limiting the scope of foreign aid. As far the aid to India is concerned, still there is a greater reluctance on the part of these agencies as they prefer greater allocation of these funds to the least development countries.

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