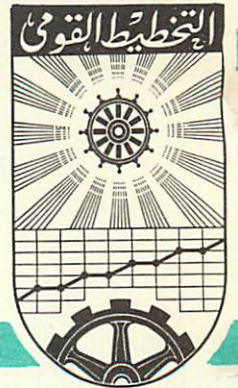


UNITED ARAB REPUBLIC

THE INSTITUTE OF NATIONAL PLANNING



Memo. No. 382

FOREIGN AID TO UNITED ARAB
REPUBLIC

by

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15th, December, 1963

INSTITUTE OF NATIONAL PLANNING

U. A. R.

FOREIGN AID

TO

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By

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The views expressed in this study as well as conclusions drawn from them are the author's own responsibility. They do not necessarily reflect the viewpoint of the Institute of National Planning.

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I

BACKGROUND

1. In order to understand the problems of foreign aid we have to realise that this is a totally new experience. For the first time in human history the richer countries of the world are devoting a smaller or greater portion of their resources for the benefit of the poorer countries. A certain part of these resources is outright donation. Another part is credit at rates of interest and conditions of repayment which could not possibly have been secured under normal commercial conditions. Most of the donor countries have set up special machinery to handle the flow of aid to underdeveloped countries. This is matched by a bewildering variety of international organisations for the same purpose. The economic development of some country somewhere in Africa or Asia has become the active concern of some other country or organisation thousands of miles away; a fact which is by no means slighted by some dubious motivation on the part of the giving country.

No doubt the world has long been acquainted with international economic co-operation. We can go as far back as the mid-nineteenth century. In more recent times it is possible to mention Lend-Lease, the Marshall Plan, the post-war reconstruction loans. These operations involved the transfer of billions of dollars. But from the viewpoint of development aid they were largely irrelevant. The parties concerned belong to the same category; politically, economically and, above all, culturally. The task they set about to perform was purely physical. It was not even technical since the technology and know-how was as much in war-devastated Germany as in U.S. This is a far cry from development aid which involves the confrontation of different cultures, the transfer of technology, and the painful process of social change. Our experience in this field is as recent as the early fifties.

2. Not only was there very little experience to go by, but also the political context was far from favourable. The world started its career in development aid in the midst of the Korean war. The gulf that separated the two contending blocks was never wider, and the ideological battle was never at a higher pitch. True Point Four programme was announced in January 1949. But its implementation actually took place in the shadow of the Korean war. This was rather unfortunate. It was humanly hard for the giving country to resist the temptation of using aid as a weapon of the cold war. On the other hand, the recipient country had every reason to suspect the ultimate motives of all aid programmes. Such suspicions were confirmed by the fact that the grant of aid was closely linked with military alliances and defense pacts. In fact it did not have to go far to find out about the motivation of the aid-giving countries. The United States Congress, for instance, was adamant in setting forth the political aspects of aid.

Once and again it was reiterated that technical or economic assistance is but an instrument of United States foreign policy. As such it was to be given or withheld according to the simple criterion of political eligibility. The same applies to Soviet aid. In timing, content, and direction one cannot fail to see that aid is but a prop in the strategy of the cold war.

In view of these considerations no wonder development aid as practiced in the fifties¹ leaves much to be desired. But we do well to remember that shortcomings encountered in the course of its brief history are not inherent. Given the necessary experience and the right political atmosphere development aid can go a long way towards speeding up economic growth, raising the standard of living and, above all, creating a true sense of human solidarity and understanding.

3. In the case of Egypt the problems of foreign capital in general are compounded by rather unfavourable memories. "Foreign business investment" said the late Professor Nurkse¹; "is not always a happy form of encounter between different civilisations" (1). This is a precise description of the Egyptian situation. Egypt got its first taste of foreign enterprise in connection with the Suez Canal venture around the middle of the nineteenth century. The encounter was truly unhappy. The project that was to prove a boon to humanity was attended by untold miseries for the populace. The digging of the canal was done by corvée labour. Thousands upon thousands of able-bodied youth were taken away from their homes to work under sub-human conditions. As to be expected large numbers lost their lives in the process. Down to the present day in peasant households a dismal account of hardships, cruelty, and privation is passed on from father to son. The opening up of the canal took close to fifteen years. The Egypt that emerged from the nightmare was deep in debts, a pawn in the game of international power politics. In return for its extraordinary labour and cooperation the Egyptian government was accorded a mere 15 % interest in the stock of Suez Canal company; which was soon to be snatched by Disraeli in a notorious bargain with a bankrupt Khedive.

The second wave of foreign capital came in the wake of opening up the Canal. On the throne was Khedive Ismael whose love for pleasure and lavishness was matched by the desire to make Egypt part of Europe. He was soon to fall an easy prey in the claws of international finance. Loans at exorbitant rates of interest and fantastic commissions were readily extended. Handled through a maze of brokers, and intermediaries, the amount of cash received by his "Khedivial Highness" was but a fraction

(1) Ragnar Nurkse "International Investment To-day in The Light of Nineteenth Century Experience" Economic Journal, 1954 p. 752.

of the debt actually contracted. A still smaller fraction survived the Khedive and his entourage to finance a string of palaces and conspicuous projects. In less than a decade foreign debts rocketed to over 90 million sterling at a time when the population of the country was about four millions with less than four million acres of cultivable land, and nothing else. From 1870 to the British occupation in 1882 the history of Egypt was dominated by the hardships involved in servicing an excessively heavy debt. But the issue did not stop there. By the standards of the day it was not abnormal for a government indulging in foreign debts to mortgage revenue-producing assets as collateral. That was effected on the Egyptian state railways, and the Khedivial estate which accounted for a sizable proportion of agricultural land of Egypt. The servicing of foreign debts whether through oppressive and odd tax arrangements or collection of revenue was by no means left to the discretion of the Khedive or his government. In fact the country was virtually run by the French, British, Italian and Austrian Consuls. The rest of the story runs along familiar nineteenth century pattern. Once a foothold was gained in the name of financial interests occupation by troops was likely to follow. In due course the British were able to ease the French out of the country. The opportunity to occupy the country openly and completely presented itself when the Orabi revolt broke out. Under the pretext of protecting the Khedive the British occupation was accomplished. It took Egypt over seventy years of strife and struggle to regain her independence.

The third wave of foreign capital took place at the turn of the century. It consisted mainly of direct private investments in banking, and public utilities such as water, electricity, city transport, and railways. A certain proportion went to mining, land reclamation, farming, real estate, and export-import trade. In most cases investment was effected through a concession or franchise granted to a parent company located abroad. There can be little doubt that private foreign investment contributed towards the economic development of the country. However, the fact remains that the Egyptian economy conformed, in no small measure, to a pattern of dual economy. As was pointed out by Professor Myrdal, (1) foreign enterprise represented an advance outpost of a foreign economy hardly integrated with the economy in which it operates. Right to the end of the Second World war the language used by foreign companies in Egypt was not the language of the land; but English or French or Italian as the case may be. Except for clerical and manual work, nationals were excluded from employment. In good many cases meetings of the board of directors were held abroad. Rightly or wrongly the general impression was one of investment of foreigners, by foreigners, for foreigners. Nationals were left with a feeling of onlookers and outsiders in their own home.

(1) Gunnar Myrdal; " An International Economy " and " Economic Theory And underdeveloped Regions. "

It is difficult to understand the contemporary attitude towards foreign capital without bearing in mind the historical background. The image has a certain connotation of greed, ruthlessness, and rank indifference to the welfare and pride of the host country. The other side of the coin, comprising as it does co-operation and mutual benefit, was well-nigh dim in contrast.

This sorry scheme of things has changed beyond recognition since the end of the second world war. It is also true that the Egyptian experience is by no means unique, but has even worse parallels in most underdeveloped countries. In the age of imperialist expansion such practices were in keeping with the political, and economic ethics of the day. This is all but gone. Nonetheless; the present situation is still haunted with past memories. It takes patience, understanding, and sympathy to completely efface them.

II

TYPES AND STRUCTURE

4. Foreign aid to developing countries has come of late to designate a very wide range of operations. The American system of aid is particularly indicative in this respect. Since its inception after the Second World War the American aid programme has witnessed a series of Congressional Acts introducing new categories or giving new names to old ones. So much so that nomenclature has become something of a problem. The most important legislation in the field is the Mutual security Act of 1954 which was subsequently amended by a number of Mutual Security Acts between 1955 and 1961. Under the Kennedy Administration a new law was passed under the title "Act for International Development of 1961". The new legislation introduced still more types of aid with amendments to previous Acts. Moreover; certain aid operations are subject to specific legislation such as the Agricultural Trade Development and Assistance Act of 1954 known as Public Law 480, and United States Information and Educational Exchange Act of 1948. This is quite apart from scores of Congressional Acts and Executive orders dealing with certain aspects of aid or certain regions of the world.

5. Under the Mutual Security Act of 1954 as amended (Public Law 665) the following types of aid were instituted:

A) Military Assistance which may be furnished on a grant or loan basis ... by the procurement from any source and the transfer to eligible nations and international organisations of equipment, materials, and services, or by the provision of any service, including the assignment or detail of members of the Armed Forces and other personnel of the Department of Defense solely to Assist in an advisory capacity or to perform other duties of a non-combatant nature, including military training or advice.

B) Economic Assistance. According to MS Act of 1954 as amended economic assistance covers four types:

First: Defense Support which may be furnished to nations and organisations eligible to receive military assistance, or to nations which have joined with the United States in a regional collective defense arrangement in the form of commodities, services, and financial and other assistance specifically designed to sustain and increase military effort. It is to be noted that defense support is a category of economic assistance. As such it does not necessarily consist of commodities or services of a military character although the motivation and eligibility for such aid are directly related to the military security of the United States.

Second : Development Loan Fund (1) established in 1957 as amendment to the then called development assistance in MS Act of 1954. The DLF is authorized to make loans, credits, and guarantees. It may enter into financial arrangements with persons, private corporations, governments, or governmental or other entities. To be eligible for DLF financing, an activity must be located in one of the less developed friendly countries and there must be reasonable prospect that the loan will be repaid. In addition the following criteria are taken into account/

a - Whether financing can be obtained in whole or in part from other free-world sources on reasonable terms. In other words the Fund is to be regarded as a financing agency of last resort. It is administered so as not to compete with private investment capital, the Export-Import Bank or the International Bank for Reconstruction and Development, although in certain cases it can co-operate with other sources in financing development undertakings.

b - The economic and technical soundness of the activity proposed to be financed.

c - The contribution of the activity to the development of economic resources or to the increase of productive capacity. Thus basic development activities such as power, transportation, communication facilities, irrigation, reclamation and drainage are eligible for financing from DLF. On the other hand service industries or those which produce less essential goods will generally have low priority. Activities which lay a base for, or eventually make possible, productive private investment as well as joint ventures between private American investors and local private investors are particularly favoured.

When DLF was established in 1957 it was endowed with considerable latitude as to the terms and conditions of the loans. In particular it was authorized to make loans payable in local currency. The Act for International Development of 1961, while maintaining the essential features of the Fund as well as the criteria for its operations, introduced an important amendment, namely; loans are to be payable as to principal and interest in United States dollars.

Third : Technical Assistance defined by MS Act of 1954 as " programs for the international interchange of technical knowledge and skills designed to contribute primarily to the balanced and integrated development of the economic resources and productive capacities of economically underdeveloped areas. Such activities shall be limited to economic, engineering,

(1) DLF : Washington 25 D.C., February 1960.

medical, educational, labor, agricultural, forestry, fishery, mineral, and fiscal surveys, demonstration, training and similar projects that serve the purpose of promoting the development of economic resources, productive capacities, and trade of economically underdeveloped areas, and training in public administration." Assistance shall be made available only where the nation being assisted:

a - provides all necessary information concerning such programme and gives the programme full publicity.

b - seeks to the maximum extent possible full co-ordination and integration of technical co-operation programmes being carried on in that nation.

d - endeavours to make effective use of the results of the programme.

e - co-operates with other nations participating in the programmes in the mutual exchange of technical knowledge and skills.

Funds made available under this programme may be expended to furnish assistance in the form of equipment or commodities only where necessary for instruction or demonstration purposes.

Fourth : Special Assistance. Funds available under this title are used on such terms and conditions as appropriate to maintain or promote political or economic stability. Special Assistance may be furnished on a grant or loan basis, and on a project or programme basis. Preference is given to projects or programmes that will clearly contribute to promoting health, education, sanitation, land resettlement, including schools, libraries founded or sponsored by U.S. citizens, demonstration centres for ideas and practices of U.S., hospitals designed to serve as centres for medical treatment, education, and research founded or sponsored by U.S. citizens.

6. In addition to the above-mentioned types of aid the Act for International Development of 1961 sets forth the following:

Development Grants. The President of U.S. is authorized to furnish assistance on such terms and conditions as he may determine in order to promote the economic development of less developed friendly countries and areas, with emphasis upon assisting the development of human resources. In so doing, the President shall take into account:

a - Whether the activity gives reasonable promise of contributing to the development of educational or other institutions and programmes directed toward social progress,

Institutions : The secretary of State is authorized to provide for assistance to schools, libraries, and community centres abroad, founded or sponsored by citizens of the U.S., and serving as demonstration centres for methods and practices employed in the United States.

B) Fulbright programmes carried out under Fulbright amendment to the surplus Property Act of 1944. According to this amendment the Secretary of State is authorized to enter into agreements with any foreign government for the use of local currencies held or available for expenditure by the United States for the purpose of :

a - financing studies, research, instruction, and other educational activities of or for American citizens in schools and institutions of higher learning located in such foreign country, or of the citizens of such foreign country in American schools and institutions of higher learning located outside the continental United States, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, including payment for transportation, tuition, maintenance, and other expenses incident to scholastic activities.

b - furnishing transportation for citizens of such foreign country who desire to attend American schools and institutions of higher learning in the continental United States, Hawaii, Alaska, Puerto Rico, and the Virgin Islands.

8. Aid in the form of surplus agricultural commodities plays a major role in the American system of aid. Such aid is provided under the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480, 83 d. Congress). It consists of four types :

a - Aid under Title I of PL 480 which provides for the sale of surplus agricultural commodities, against local currencies. The purposes for which sales proceeds may be used are laid down in section 104 of PL 480. They cover a very wide range such as : to develop new markets for U.S. agricultural commodities, to purchase strategic materials, to pay U.S. obligations abroad, to acquire sites and buildings for U.S. Government use, to promote balanced economic development of the recipient country, to promote multilateral trade etc.

b - Aid under Title II of PL 480 which provides for famine relief and other assistance. The President of U.S. is authorized to transfer on a grant basis surplus agricultural commodities to any nation friendly to the U.S. in order to meet famine or other urgent or extraordinary relief requirements of such nation, and to friendly but needy populations without regard to the friendliness of their government.

c - Aid under Title III of PL 480 which provides, among other things, for the donation of food commodities to nonprofit voluntary agencies for

medical, educational, labor, agricultural, forestry, fishery, mineral, and fiscal surveys, demonstration, training and similar projects that serve the purpose of promoting the development of economic resources, productive capacities, and trade of economically underdeveloped areas, and training in public administration." Assistance shall be made available only where the nation being assisted:

a - provides all necessary information concerning such programme and gives the programme full publicity.

b - seeks to the maximum extent possible full co-ordination and integration of technical co-operation programmes being carried on in that nation.

d - endeavours to make effective use of the results of the programme.

e - co-operates with other nations participating in the programmes in the mutual exchange of technical knowledge and skills.

Funds made available under this programme may be expended to furnish assistance in the form of equipment or commodities only where necessary for instruction or demonstration purposes.

Fourth : Special Assistance. Funds available under this title are used on such terms and conditions as appropriate to maintain or promote political or economic stability. Special Assistance may be furnished on a grant or loan basis, and on a project or programme basis. Preference is given to projects or programmes that will clearly contribute to promoting health, education, sanitation, land resettlement, including schools, libraries founded or sponsored by U.S. citizens, demonstration centres for ideas and practices of U.S., hospitals designed to serve as centres for medical treatment, education, and research founded or sponsored by U.S. citizens.

6. In addition to the above-mentioned types of aid the Act for International Development of 1961 sets forth the following:

Development Grants. The President of U.S. is authorized to furnish assistance on such terms and conditions as he may determine in order to promote the economic development of less developed friendly countries and areas, with emphasis upon assisting the development of human resources. In so doing, the President shall take into account:

a - Whether the activity gives reasonable promise of contributing to the development of educational or other institutions and programmes directed toward social progress,

b - the consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-term objectives,

c - the economic and technical soundness of the activity to be financed,

d - the possible adverse effects upon U.S. economy

e - the desirability of safeguarding the international balance of payments position of U.S.

In countries and areas which are in the earlier stages of economic development, programmes of development of education and human resources through such means as technical co-operation shall be emphasized, and the furnishing of capital facilities for purposes other than the development of education and human resources shall be given a lower priority until the requisite knowledge and skills have been developed.

Second : Investment Guarantees : In order to facilitate and increase the participation of private enterprise in furthering the development of the economic resources and productive capacities of less developed countries and areas, the President of U.S. is authorized to issue guarantees in connection with projects, including expansion, modernization, or development of existing enterprises. Such guarantees may be issued to U.S. citizens, or corporations, partnerships, or other associations created under the laws of the United States and substantially beneficially owned by U.S. citizens, as well as any wholly-owned foreign subsidiary of any such corporation-assuring protection in whole or in part against any or all of the following risks :

a - inability to convert into U.S. dollars other currencies, or credits in such currencies, received as earnings or profits from the approved project, as repayment or return of the investment therein, or as compensation for the sale or disposition of all or any part thereof.

b - loss of investment, in whole or in part, in the approved project due to expropriation or confiscation by action of a foreign government.

c - loss due to war, revolution, or insurrection.

No guarantee shall exceed the dollar value, as of the date of the investment, of the investment made in the project with the approval of the President plus actual earnings or profits on said investment to the extent provided by such guarantee, nor shall any guarantee extend beyond twenty years from date of issuance.