

Executive Summary

The developing world as a whole has experienced unprecedented levels of economic growth in the post-war period. But, the stunning divergence of growth patterns amongst countries of the developing world over the last forty years is perhaps the single most important factor in determining the differences between the haves and the have-nots of today. The experience, and relative prosperity, of those countries and many others have changed dramatically during that period. The reason for this is economic growth and the reasons for these diverging growth patterns are government policies. In some cases, development strategies were misguided, based on a faulty ideological base. In others, resources including massive flows of development assistance were squandered by political elites who misdirected investment, including by more than occasionally lining their own pockets. In still other countries, civil war and domestic unrest meant that sustained economic growth was impossible.

This Paper looks at the lessons from growth theory, and the theoretical and empirical literature on aid's contribution to macroeconomic growth. I conclude that, while neoclassical growth theory argues that foreign aid can "replace" domestic capital in the capital accumulation process, several studies have noted that aid as a growth motor has been discredited to a large degree in both donor and recipient countries. On the other hand, new or endogenous growth theory says that economies grow by raising the productivity of human capital. This requires commitment and an enabling environment. Canadian aid flows are not large, and are falling. Thus Canadian aid should be even more tightly focussed on training and education, and encouraging a market-based environment more propitious for learning by doing, especially in countries where there is a commitment to sustain the reforms required to create such an environment.

This Paper also argues that international assistance should focus on improving the research and development capabilities of recipient countries. Research and development contributes to increasing human capital, and hence to rising economic growth rates. Existing arrangements with regard to access to technology could also be reviewed. In addition, international assistance should be targeted in large part on improving the export capabilities and the functioning of domestic markets of recipient countries, through improving two-way market access, strengthening intellectual property and commercial law regimes, and helping recipient countries to participate in markets more efficiently.