

CHAPTER I
INTRODUCTION
BURKINA FASO, TAIWAN,
FOREIGN AID AND ECONOMIC DEVELOPMENT

In this opening chapter defining key concepts, variables, and variables co-variation constituted the core information described in three sections. The first and second sections shed light on the concepts of foreign aid, economic development as well as Burkina Faso and Taiwan brief introduction. This pre-requisite eased the comprehension of the study framework outlined in the third section.

I.1. FOREIGN AID AND ECONOMIC DEVELOPMENT.

I.1.1.FOREIGN AID.

Foreign aid is currently, in its official definition, an instrument, through which the government of one country (or an international institution) decides, for some specific reasons, to transfer financial and technical resources to another country or region of the world.¹ Morgenthau has identified six types of foreign aid: the humanitarian foreign aid, the subsistence foreign aid, military foreign aid, bribery, prestige foreign aid, and foreign aid for economic development.² Beyond this diversity of forms, the author found a common link that is “the transfer of money and economic services from one nation to another.”³ Officially therefore, foreign aid might be perceived as an inflow of financial, physical and human capital from international multilateral or bilateral donor’s countries to strengthen the economic development process of recipient’s countries mostly poor, or facing some punctual natural, or human made disaster.

In its delivery form, the foreign aid marketing, management and disbursement are a matter of the Official Development Aid (ODA). The establishment of this latter institution is back to the early 1960s. A period where the Special United Nation Fund for Economic Development (SUNFED), ancestor of the current United Nation Development Program (UNDP) and the Development Assistance Committee (DAC) were

¹ Timothy Callan, *Us foreign Aid in complex humanitarian Emergencies: Motivation behind Aid in Western Europe, Cambodia, Ethiopia, and North Korea*, (New York: State University of New York at Buffalo Press, 2000), P.22.

² Hans J. Morgenthau, *Why Foreign Aid?* (New York: Robert Goldwin ed, 1962), P.71.

³ Idem.

established.⁴ The DAC was the industrialized and westerner's countries common structure to coordinate their development and aid allocation policies. This initiative has evolved into the ODA, a main channel for aid disbursement to developing countries.⁵ It specified that any resource flow indicate as an ODA might follow the criteria listed below.

1. Aid must be undertaken by official agencies;
2. Its main objectives must be the promotion of economic development and welfare;
3. It must have a grant element of at least 25 percent, i.e. the terms must include some net transfer of resources, rather than a loan.⁶

So far, the major problem is how money and economic services from one country to another can help the latter to improve the daily life of the bulk of its population. To understand the complexity of this task, one should comprehend what the achievement of the goal of economic development entails.

I.1.2 ECONOMIC DEVELOPMENT

In his "Study Guide to Economic Development", Ramesh Mohan (2005), outlined Economic Development as: "Economic growth (that is) leading to an improvement in the economic welfare of the poorest segment of the population or changes in educational level, output distribution and economic structural change."⁷

This citation sums-up the current definition of the concept of economic development that is different from economic growth. Recent studies on the subject agreed that economic growth merely refers to quantitative expansion of economic aggregates such as Gross Domestic Products (GDP) or per capita income or aggregate society endowment. While economic development includes quantitative and qualitative factors such as institutions, organizations, culture etc. Its outcome should be equitable distribution of wealth or income, changes in employment with a noticeable improvement in employment opportunities, technology

⁴ The DAC is a structure creates on the initiative of the Organization for European Cooperation and Development (OECD). Currently, the DAC is still coordinating westerner's aid to poor countries while the SUNFED referred to be the current UNDP offices in the developing countries.

⁵ Stephen Browne, *Foreign Aid in Practice*, (New York: New York University Press, 1990), PP. 22-23.

⁶ In Katie Willis, *Theories and Practices of development* (London, New York: Routledge, 2005), P. 46.

⁷ Ramesh Mohan, professor of the Bryant University, and a collaborator on instructional resources. His study guide for the 4th edition of Economic development wrote by E. Wayne Nafziger (Kansas state university, 2005) is a comprehensive lecture on the subject discussed by the book: www.k-state.edu/economics/nafwayne.

adaptation and growth of production along with people's livelihood improvement.⁸ Different theories of development fed the evolution of the concept into a more complete definition.

These theories developed around three main schools, nurtures economic development as a central concern. They are Modernization, Dependency, and World System Schools. This group of three constitutes an important background to understand what it is so far about economic development.⁹ Katie Willis described the main content of this long journey. In her recent book, She shows how the notion has shifted from a mere concern for economic quantitative variable (GDP, GDP per capita, GNI) in the 1950s and 1960s with modernization theories, to be much more focused on social variables from the 1980s.¹⁰ Does Burkina Faso and Taiwan achieve this goal while under foreign aid? The section two, help to answer this question.

I.2 BURKINA FASO AND THE REPUBLIC OF CHINA (TAIWAN).

Burkina Faso, and the Republic of China (Taiwan), displays different geographical, geo strategically, and historical disparities.¹¹ Moreover, they are two areas of the world diametrically opposed in variables related to foreign aid policy, and economic development as outlined in the following lines.

I.2.1 BURKINA FASO: AN OVERVIEW

Burkina Faso is a continental country covering a land of 274.200 square kilometers. A territory, which is about half the size of France, two-thirds that of California and eight, times that of Taiwan. Currently, 13,902,972 million peoples are living within limits bordered by countries as Niger to the east, Mali to the north and west, Benin, Togo, Ghana, and Ivory Coast to the south (refer map 1 page 5). Unlikely to those south neighboring countries, Burkina Faso's natural resources are limited. In the words of Englebert, "It lies

⁸ In Aloysius Amin, "Education planning for economic development", *African Institute for Economic Development and Planning* 5, no. 2 (June 2003): 3 http://www.unesco-icba.org/Resouces/Eng_v5_n2.pdf.

⁹ To know more about these different schools, confer to Alvin So, *Social change and development: modernization, dependency, and world-systems theories* (Newbury Park, Calif. : Sage, c1990).

¹⁰ Katie Willis, (op-cit, 2005), 27, this is a succinct summary; more theoretical issues are discussed further.

¹¹ From the French colonization to the mid 1980s, the country name was Haute-Volta. Volta is a river with its spring in the Niger River Basin, and its upper part flowing in three effluents crossing the country: *Nakambe*: formerly White Volta, *Mouhoun*: Black Volta, and *Nazinon*: Red Volta) for more information, confer: Pierre Englebert, *Burkina Faso: unsteady statehood in West Africa* (Paris: Westview Press, 1996).

landlocked at the border between desert and tropical forest, a region referred to as the Sahel.”¹² With an average rainfall of 350 mm, the country’s natural irrigation is weak with three main rivers, belonging to the Niger River basin.¹³

These data described a country constrained by natural resources. As the nature does not favor this part of the world, people also do neglect it as well. The most important resource of the country remained its hard working but inclined to immigration population. The fast increasing of the population at an average of 3 percent per year is balancing by a high rate of infant mortality of 91.35 deaths over 1000 births. According to recent estimations, only 14 percent of women, and 34 percent of men of the population are literate, while the GNP per capita is equal to \$US1030 (in PPP).¹⁴ The 15 to 49 age group constituted the bulk of the population for which a current HIV prevalence of 3.9 percent remains a high threat.

The Burkinabè immigration has been impressive under French hard colonization policy firstly, and currently, in search for a hypothetical wellbeing elsewhere.¹⁵ As most of the newly born African countries in the early 1960s, the country has been receiving ODA from the DAC countries since the late 1970s. However, after 35 years of this policy, the country is still under the threat of poverty. The figure 1 of the next page witnessed it. From 1984 to 2004, the agriculture sector stagnated around 25 percent when industry and manufacture were lower than 20 percent of the GDP against more than 25 percent for imported good and services.¹⁶ Taiwan, although belonging to the so-called “developing countries”, shows a different trend after 15 years of financial and technical aid policy.

¹² Pierre Englebert, (op-cit 1996), P.4.

¹³ They are the white, black, and red Volta. Only the Black Volta flows permanently, the other two have a weak debit and usually dry-up during the dry season. The Niger River Basin located in West Africa, covers 7.5 percent of the continent ten countries including Algeria, Burkina Faso, Benin, Cote d’Ivoire, Chad, Cameroon, Guinea, Mali, Niger, and Nigeria.

¹⁴ Information collected from the World Bank African statistics data: www.worldbank.org. PPP means Purchasing Parity Power, a measure to equalize the dollar power across different countries.

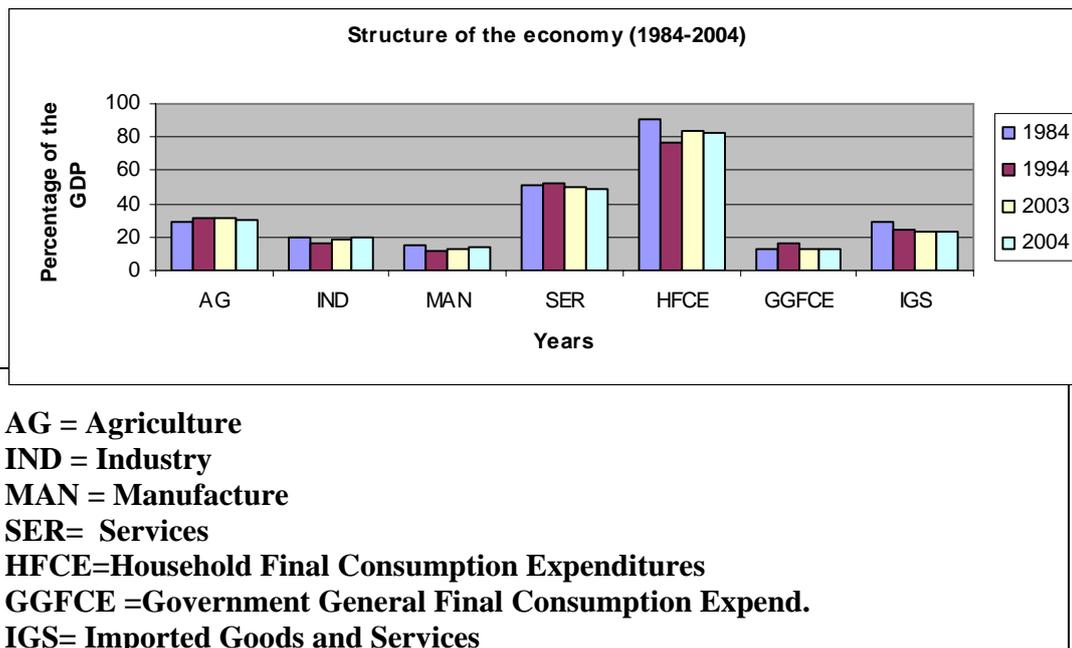
¹⁵ During colonial times, Burkinabè fled in mass to neighboring countries in search for “the price of the nose” as they called French instituted taxes for which, they needed to find a job. They also fled to escape from the harsh treatment endured from French colonial administrators. Beside these unofficial human outflows, an official one fed their numerals costal projects in human resources. Today, the immigration is under the guidance of-the-need to improve daily life harsh conditions.

Map 1: Burkina Faso in West Africa



Source: www.worldatlas.com

Graph 1: Burkina Faso Economic Structure from 1984 to 2004



Source: Adapted from the World Bank data base, 2005

I.2.2 THE REPUBLIC OF CHINA (TAIWAN): AN OVERVIEW

Transitory Island for Atlantic and Pacific traders, or just a trade point between the North and the South East Asia during the 19th century, the Republic of China (Taiwan) has evolved into a developed region of the world despite internal, and external political constraints. With its 36,169 square kilometers, 23,036,087 million of people, the island is tiny from its surface, extraordinary large from its population, and worthy from a geopolitical point of view.¹⁷

From the beginning, as the natural resources were limited, human resources stood as the Island focus factor of development. In contrary to Burkina Faso that is still fed in many aspects by foreign aid, the Republic Of China (Taiwan) was free from Foreign Aid after 15 years of implementation (1951-1965). In 1951, as witnessed by the table 1, the country GNP grew from 879 US \$ in 1951 to 2,357US \$ in 1964. The agriculture production increased from 100 to 200.5 for the same corresponding years, concomitantly to industry production index that start from 100, and increased to 533.3 in 1964. Today, the 23,036,087 of Taiwanese increase at a low pace of 0.61 percent per year. The infant mortality rate is as low as 6.29 per 1000 births, 96.1 percent are literate with \$ 22, 650 as per capita GNP. The 15-49 age groups, is healthy with only 6,974 confirmed cases of declared VIH.¹⁸

Although Taiwan recent political development attracts scholar's attention, its economic development remains an overwhelming subject for scholar of development issues. Considered as a pioneer,

1. It began its industrialization drive after Hong Kong and before South Korea because of raising wages rates in Japan and subsequently Hong Kong, and quota restriction by the U.S and subsequently Europe on textile exports.
2. Taiwan has done exceptionally well despite relatively unfavorable resource endowment. Over the last half century, real GNP and real GNP per capita has grown from approximately US\$6 billions to US\$300 billions, and from slightly more than US\$700 to US\$13,000 (2000 prices), achieving growth rate of more than 8 percent and 6 percent per annum respectively.
3. Taiwan survived the East Asian currency crisis relatively unscathed, thanks to its large foreign reserve and low external debt.¹⁹

¹⁸ Information collected from www.cia.gov and www.chinapost.com.tw/cp/health2004/helth1129-3.htm.

¹⁹J. Lau Laurence, "Taiwan as a model for economic development" *Department of Economics Stanford University*, www.stanford.edu/JLLAU.

The Republic Of China (Taiwan) appears therefore to be many times wealthier than Burkina Faso. Since the 1960s, it has moved from the pattern of underdeveloped countries, and ascended to the group of the higher middle-income countries.²⁰ Our task is to determine in which way US Aid contributes to the earliest moved of the country toward a self-controlled economic development from the mid 1960s, and find out what Burkina Faso can learn through this experience to take a real advantage from its current foreign aid policy.

I.3.THE SCOPE OF THE STUDY

This third section is about subjective and objective reasons behind the choice of this subject.

They are respectively describes in the following sub sections.

I.3.1 SUBJECTIVE MOVE

As a student of the International Master of Taiwan Studies (IMTS) from Burkina Faso, we would like to apply some of our study findings as possible lessons and contribution to sustain the movement launched by the international community and many bilateral “friends” countries to shift human development variables from thick to thin in Burkina Faso. On this particular subject, Taiwan experience revives our dying hope to see Burkina Faso stand-up and advanced by its own. We therefore, choose to revisit US Aid investment in Taiwan human capital and its correlation to the country economic development process. Beyond this subjective move, Taiwan positive achievement in the matter, the stepping forward of the international community with a particular commitment to poverty reduction, debt forgiveness and aid scaling up are pushing factors towards objectives aims.

I.3.2 STUDY FOCUS

The brief description of Burkina Faso and Taiwan reversal achievement in aid to macroeconomic evolution, the latter past successes strengthen our conviction that constraints faced currently by the former are not fatality, and that it is possible to launch a process of economic development while under foreign aid.

²⁰ Confer world map from the first page of the book of Steven, Husted and Michael, and Melvin. *International Economics, (USA: Addison Wesley Longman, 2001)*, According to the authors, Low-incomes economies have a GNP per capita of US\$760 or less in 1998; lower-middle income, US\$761-3,030; upper middle-income, US\$3,031 US\$9,360; high-income, US\$9,361 or more. According to this classification, Taiwan with its more than US\$10,000 belongs to the high-income group of countries.

Map 2: Taiwan geographical Location



Source : www.cia.gov/cia/publications/factbook/geos/tw.html

Table 1: Taiwan’s macroeconomic indicators from 1951 to 1964.

Indicators	1951	1953	1955	1957	1959	1961	1963	1964
GNP in constant 1964 prices (US \$)	879	1,093	1,273	1,416	1,621	1,887	2,140	2,357
GNP/per capita	106	124	134	140	150	164	175	187
Agri production Index (1951 = 100)	100	121.7	126	147.7	159.9	175.4	181.8	200.5
Industry P (index 1951 = 100)	100	156.7	186.7	222.9	271.3	341.3	423.9	533.3
Gross Domestic saving	105	116	116	131	169	265	396	489
Government current revenue	153	174	235	284	316	328	396	414
Export as % of GNP	9.8	8.3	9.2	10.0	11.0	12.0	16.8	20.4
Import as % of GNP	14.4	14.3	15.4	17.2	20.1	19.9	17.5	20.5

Source.: Neil Jacoby, (1966), P.86.

Taiwan of the 1950s and 1960s, in terms of aid policy implementation, is comparable the 2000s Burkina Faso in select variables:

- A common external-internal will for development
- An express will of the international community to upgrade aid quality
- Internal-external will for investment in people
- Internal-external will to improve aid implementation institution.

In brief, internal and external environment are favorable for Burkina Faso today as it was (with some exceptions) to Taiwan during the early 1950s. All is today about moving people from misery and poverty as it was during these after WWII times. Times where financial and technical funds from the US were using to fill the human capital gap in Europe and in the Pacific particularly in Taiwan. Our research questions evolve around this main objective:

How financial funds and technical assistance from US Aid were investing for Taiwan human capital enhancement? How does it covariate with the country's economic development? What were the intervening factors to this achievement? Which lessons are worth learning? How can, both the MDGs and Burkina Faso leadership, on the light of Taiwan's experience improve the development process in Burkina Faso?

To find answers to these questions, we followed the methodology described in the next section.

I.4 METHODOLOGY

Conducted as a case study, this research uses both qualitative and quantitative approach to revisit the early US Aid investment in Taiwan, in search for selective correlative variables that is replicable in Burkina Faso. We use content analysis, different countries socio economic indicators comparison, and specifically, Burkina Faso Taiwan comparison to sustain the idea that most of the U.S Aid financial funds and technical assistance went primary to fill the human capital gap in Taiwan. This strategic investment as showed, worked to foster pre-conditions that are indispensable to the country self-development process. To put it as the orthodox economists, these funds helped to establish the pre-conditions phase of development outlined in Rostow step theory of development. The following sub-sections outline the theory defended, the data collected to sustain it as well as the estimation of the technique used for data analysis.

1.4.1 HUMAN CAPITAL THEORY

The theory used as background of the research topic is the human capital theory that is formally puts:

A way of defining and categorizing peoples' skills and abilities as used in employment and otherwise contributes to the economy. Many early economic theories refer to it simply as labour, one of three factors of production, and consider it a commodity, homogeneous and easily interchangeable.²¹

The concept has emulated from Pigou's first mentioned of it in 1928, established as a term of modern classical economy by Jacob Mincer in 1958, and widely expanded by Gary Becker (Human Capital 1964) who is said to have brought sociology into pure economy. In his view,

Human capital is similar to "physical means of production", e.g., factories and machines: one can invest in human capital (via education, training, medical treatment) and one's income depends partly on the rate of return on the human capital one owns. Thus, human capital is a stock of assets one owns, which allows one to receive a flow of income, which is as interest earned.²²

The central characteristic of this concept is the knowledge that is transportable and self-generating, and shareable. Despite some critics, the theory of human capital is currently a central concern for all economists and most notably for policy makers. Empirical studies related to this special factor of production help policy strategists in countries economy planning. Among the most important advocate of this theory, is Gerald Meir.²³

In 2000, he conducted an empirical study to distinguish between the traditional perception of human capital investment and the current one championed by the endogenous growth theory.²⁴ His research findings provide evidence that: firstly, catch-up remains a significant element for growth, and countries with higher education tend to close the technology gap faster. Secondly, he suggests that the role of human capital is indeed one of facilitating adoption of technology from abroad. This summary of Meier's finding shows the importance of formal education, on-job training, learning-by-doing and their ensuing spillover effect. All things implemented in the Republic of China (Taiwan) during 1950s and 1960s. From this, we suggest that a

²¹ Human Capital definition on: http://en.wikipedia.org/wiki/Human_capital#Origin_of_concept

²² Idem

²³ The incorporation of human capital as a *factor input*, for example by adapting the Solow model (see Mankiw, Romer D and Weil (1992); Romer D (1996); explaining the process of knowledge accumulation by relating it directly to human capital accumulation, or indirectly via research and development (R and D) activity (see Lucas, 1988; Romer P M, 1986, 1990a

²⁴ Gerard Meir, Leading issues in economic development, 2000: P.218

human capital investment for specific Least Developed Countries (LDC) is fundamental. The following subsection outlined the specific case of Burkina Faso.

I.4.2 HUMAN CAPITAL INVESTMENT FOR SPECIFIC LDCs (BURKINA FASO CASE)

When one analyzes the structure and causes of economic non-development in the developing countries, poor health, malnutrition, and food insecurity pervade the literature. Those numerical constraints led to the redefinition of human capital and the subsequent investment that it implies accordingly to the country's level of development. Investment in Burkina Faso bulk population with financial funds, and technical assistance from third actors should be different from developed countries investment in human capital. How should funds go to feed Burkina Faso disposal human capital?

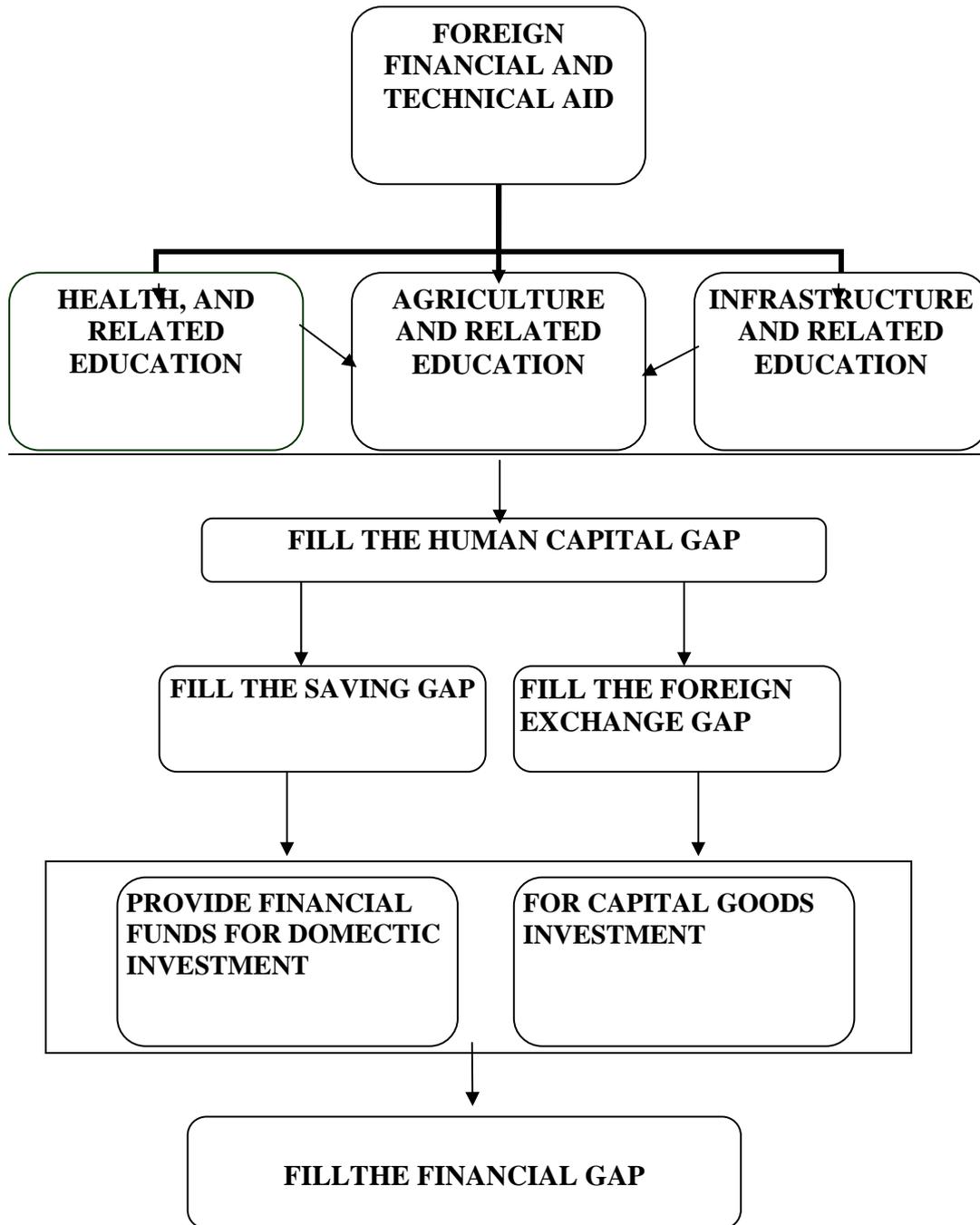
The chart of the next page suggests that there are many gaps to be filling-up in Burkina Faso, and countries alike. The main idea is that filled the human capital is the bottom line priority if one is intended to launch a self-sustained economic growth. To do so, in a country as Burkina Faso where the most of the population remained less educated, under nourished, and unhealthy, a particular investment focus to this fringe of the population should be the first step. Investment to this fringe of the population means therefore to directed financial funds and technical assistance to the rural based population with a particular stress on agriculture (education and production), Health (education and common disease eradication), light industry and infrastructure close to the rural population. Once this pre-requisite goal reached, the blended human capital will help by high production and trade to achieve the goal of filling-up the financial gap.

THE FINANCIAL GAP

The concept of financial gap describes for a given country, the lack of financial funds for investment in different domestic sectors of production, and for the purchase of foreign goods as well. Generally, these funds collected from domestic savings, and private operators are supposed to achieve both domestic investment, and foreign exchange operations costs. This concept for short, determines financial shortfalls.²⁵

²⁵ Easterly William "the Ghost of Financing gap: Testing the growth model", Journal of Development Economics 60, no.2 (December 1999), PP. 423-438

Chart 1: Fill the Human Capital gap



Source: design by the author

Indeed, the idea behind the financial gap describes a situation where both savings and foreign exchanges are limited, or unavailable for a given country. Thus, a need for a proportional disbursement of finance to bridge the lack created by these missing gaps emerged as a financial gap to be filled. For what stands the human capital investment gap?

HUMAN CAPITAL INVESTMENT GAP

Investment is “The placement of a particular sum of money in business ventures, real estate, or securities of a permanent nature so that it will produce an income.”²⁶ Recalling Becker’s definition, “Human capital is similar to ‘physical means of production’, e.g., factories and machines ..., one can invest in human capital (via education, training, medical treatment)”. Obviously, it appears from the above definitions that behind any operation in which investment and production matters, a will to earn profit is the fundamental goal. To reach this goal, strategies differed from one country to another according to their respective comparative advantage in economic production and the level of income expected.

We intend to prove the workability of this theory from a set of analysis displays in tree units. In the first unit, content analysis from secondary data helps to outline how financial and technical resources from the U.S. have primary served to close the human capital gap. In a second unit of analysis, we used countries comparatives socioeconomics variables to reinforce the main idea defended in the context of this thesis. The last third unit of analysis compares Burkina Faso to Taiwan in the eight selected variables following the same purpose. The origin and the nature of the data collected to sustain this issue constituted the content of the following sub-section.

I.4.3.DATA COLLECTION AND METHOD ESTIMATION

The analysis unit one includes data from an institutional report of the Joint Commission on Rural Reconstruction (JCRR); this first set of data provides an overview of the amount of fund invested in human capital at this earliest stage. Invested funds estimation considers direct human capital investment, and indirect investment through infrastructure, agriculture and industry sector programs.

²⁶ Definition from the Legal Encyclopedia Thomson Gale: <http://www.answers.com/investment>.

To shed light on the effects of these investments, data from the Taiwan statistical book of 1963, Jacoby 1966, Maurice Scott 1979, and Yager 1988 study cases help to determine the change in human capital during this period and its impact on the economical growth variables during the 1950s 1960s. Considering that effects of investment in human capital to reflect the reality should be measured in the long-run, we used variables in social changes twenty years later (1970s) to witness the effects of US Aid investment for the group of population aged 12 and above (with 1952 as departure year).

The second analysis unit includes two sets of countries from different time and geographical contexts but comparable in terms of aid to economic development achievement. We compare socio economic variables of a group of 5 countries that have been receiving US Aid from the 1950s to the 1990s to the achievement of a set of 5 High Indebted Poor Countries of the West Africa, which received an increased ODA from the late 1990s. The third unit of analysis uses the same technique circumscribed to the two countries on purpose: Burkina Faso, and Taiwan.

The main data use for this analysis is from the Congressional Budget Office website, World Bank, and international institutions websites. The data collected from those existing documents are both qualitatively leading to content analysis as well as quantitative data to sustain the enounced theory. Before displaying analysis and results in chapter III and V, the next Chapter II introduces the main literature less or more related to the subject. The last Chapter (conclusion) displays findings and their implication for Burkina Faso today.