

# Topic: Does Foreign Aid Help to Achieve Economic Stability?

## Outline:

### 1. Introduction

Thesis Statement: No, foreign aid does not.

### 2. Conclude Paragraph

### 3. Why foreign aid does not help in stabilising economy

- Foreign aid hampers economic prosperity of the country.
- Foreign aid promotes aid dependency.
- Foreign aid becomes a tool of neo-colonialism.
- Widespread and rampant corruption of foreign aid.
- Always comes with some strings attached

### 4. How foreign aid has helped in stabilising economy

- Foreign aid helps in bringing stability in critical conditions.
- The target of foreign aid is to improve economy. (EU after war)
- Foreign aid strengthens international cooperation and multilateral <sup>bonds</sup>
- International monitors oversee the implementation and usage.
- No compulsion except repayment of financial aid.

### 5. The ultimate effects of foreign aid on economy are negative

- Boom after aid is short lived and artificial
- Aid dependent economies keep coming back for bailouts.
- International donors and debt agencies blig about impractical SAPs
- No proper mechanism for effectively tracking flow of aid.
- Foreign aid providers become threat to national security in long <sup>term</sup> forfeiture of national assets.

### 6. Conclusion.

J. F. Kennedy once said, "Foreign aid is a method by which the United States maintains a position of influence and control around the world." When Kennedy said this, the cold war was at its peak, and the world was visibly divided into liberal and communist blocs. Yet, even then, the intention was clear; foreign aid is not meant to offer stability to the economies of developing world. Even though, fifty years later, Barack Obama was mentioning in his speech that the purpose of aid to the countries should be that they do not require it any more. But we see exactly that happening all over the world. Foreign aid does not help to achieve economic stability. It ~~is~~ not intended or focused to help out another economy. And because of this lack of real purpose and direction, foreign aid fails to help an economy. It hampers the economic prosperity of a country and makes it aid dependent. Foreign aid becomes a tool of neo-colonialism. There are always reports of corruption in the foreign aid, and it always comes with strings attached. However, foreign aid has, in the past, helped stabilize economies, as its main target ~~is~~ to bring stability in critical conditions. A planned foreign aid package does improve economy and strengthens multilateral bonds along with it. International monitoring of foreign aid and fewer compulsions contribute towards achieving economic stability. And yet, the net impacts of foreign aid are ~~on~~ negative. The boom experienced after aid is artificial and temporary, and aid-dependent economies keep coming back for more. International aid agencies suggest impartial SAPs and can become a threat to national security in the long run.

A foreign aid package is any services, technical or financial assistance offered to a country/countries by another country/countries or international agencies. This foreign aid can be in the form of grants or loans. The grants are not supposed to be paid back, and are promoted as signs of goodwill among nations. Loans, however, have to be paid back according to the terms and conditions of the contracts. In both cases, foreign aid does not help economy achieve a sustainable stability in the long run. While the majority of focus of the argument remains on the financial side, services and technical aid does not work miracles for an economy either.

The biggest reason why the foreign aid does not help an economy achieve stability is that it hampers the economic prosperity of the country. Foreign aid is an external funding resource which has no origin in the country's own economy. When this aid is injected, it causes a disruption of the natural progression of that economy and alters how it should actually progress. This creates false positives in the outlook and indicators clouds the actual situation of economy and the real picture gets shrouded in a smoke screen of inflated growth rates. This may cause the economic progress of a country and even has a potential to reverse it.

Aid dependency created by foreign aid is a major issue which irreversibly harms the stability ~~of~~ of any economy. It is notoriously similar to addiction ~~of~~ to drugs, where any person partaking once wants a consistent ~~and~~ supply in ever-increasing amounts. Similar is the case with financial aid to an economy; once injected, it inflates it to a level which is impossible to sustain. A big example is Pakistan's growth rate during the 1980s where the country saw a high growth rate due to massive influx of foreign aid but also witnessed a steep decline in it during the 1990's when the foreign aid dried up. This not only ~~is~~ impedes the stability of an economy, but has quite the opposite effect.

Foreign aid, in the modern world, <sup>has</sup> become the favourite tool of neo-colonialism. With foreign aid, the developed countries - mostly the global north - keep influencing the politics and economy of the countries <sup>beneficiary</sup> of aid packages. This means that these countries, even though sovereign and independent, are still following the rules set by their benefactors. An important case study in this regard is the tilt of African countries. Until recently, their inclination was towards the west due to several economical ties in the form of foreign aid and historical ties due to a legacy of colonialism. But currently, more and more of Africa - particularly the eastern side of the continent - has been swayed by China in its favour due to massive multi-billion dollar investments and aid. This not only negatively impacts a country's ability to make an independent foreign policy, but also an independent and stable economy.

Economic stability of countries is badly damaged by the corruption in the foreign aid. Whether it is the government or the administration, embezzlement of funds is a major issue. This not only stops foreign aid from reaching the right places, but also incentivizes a culture of corruption to grow in the countries receiving aid. Former US secretary of state Rex Tillerson <sup>was</sup> once quoted in a senate hearing that "70% of aid is embezzled" off the top"; however, World Bank gives a much lower figure of around 30%, every year. This sums up to be a huge amount and the corruption destabilizes the economy.

Foreign financial aid always comes with strings attached and never bears fruitful results. The conditions tied to any foreign aid are never to the advantage of the country receiving financial aid and there's always a catch. That country always has to accept conditions which do not serve its purpose and its people. The biggest example is the story of Argentina. Once the most wealthy nation of the world, it is the most indebted country of the IMF. ~~As~~ In return of successive bailouts, Argentina has had to make thousands of redundancies, sell profitable state-owned enterprises, and cap the maximum increment in salaries to 25%, against a record high inflation of 60%. Thus the foreign aid exacerbated the destabilisation of economy.

However, foreign aid has also helped many economies which were in critical conditions to become stable. These countries would have become dysfunctional if not for the ~~financial~~<sup>foreign</sup> aid they received. The best case study is that of the default of Greece. After defaulting on a € 1.6 billion debt owed to the IMF, Greece was given foreign aid in form of a € 289 billion ~~package~~<sup>bailout</sup> from IMF and other European creditors. Despite high initial unemployment and low GDP, structural changes helped Greece go from an <sup>un</sup>employment rate of 28% in 2014 to 13% in 2021. Its GDP also went from -10.1% to 1.8% in the same time, signalling that foreign aid does indeed help stabilise an economy.

The target of the ~~foreign~~ foreign aid, according to monetary organisations and developed countries, is ~~to~~ to improve and rebuild the economies of other countries. This is done so that those countries can pitch in their share in the global development. The foreign aid provided to western Europe by USA is the case in focus. Under the Marshall Plan, US rolled out a \$13 billion aid package to the European countries which were utterly destroyed in the disastrous second world war after 1945. Because of that aid and its usage in the right places, the continent was able to rebuild its cities, infrastructure and economy in a very short amount of time. This case clearly stands as a point to establish that foreign aid helps to achieve economic stability and growth.

Foreign aid gives strength to multilateral bonds and international cooperation. Foreign aid is not just for the economy but also for humanitarian purposes and bilateral bonds. For example, in the wake of the devastating 2022 floods, Pakistan received international pledges of \$ 8.57 billion. This showed the commitment of the international community to help a country's economy which was in a disarray due to the magnitude of floods. Another example is of KSA announcing a 3-year delayed payment for petroleum products to help Pakistan navigate through economic problems. Both these steps helped Pakistan stabilise its economy.

International monitoring and oversight of the foreign aid helps in achieving the targets for which it was intended. International organizations and donor countries keep a close eye on how the amount is spent and whether it is spent in the right places. The IMF grants loans and aid for structural reforms specifically, and carries out a quarterly review over the targets achieved. The World Bank operates in much the same manner. This not only ~~insures~~ greatly reduces the chances of embezzlement in the foreign aid, but also has a trickle down effect on the economy of the country to make it more transparent. Thus helping it become stable.

Foreign aid proves essential in stabilising an economy in distress because there are no compulsions in the aid package. Most of the time, the foreign aid provided in ~~form~~ <sup>form</sup> of loans is based only on the condition of timely repayment, and even then those repayments can be delayed after negotiations. Example in case is deferment of payments facility provided by global financial organizations and other countries towards economies of the global south mainly which are struggling to get back on track. This is not only a source of relief for those countries but also gives them a chance to recover and stabilise.

And yet, the net effects of foreign aid on an economy have always been overwhelmingly negative. The boom experienced by the economy in the wake of foreign aid is always shorth-lived ~~and~~ ~~artificial~~. This is because the growth rate figures and employment rates are artificial and do not originate from an actual source in the economy of the country. The best picture for this case is Pakistan after 2001. Declared as a US/Nato ally, Pakistan received massive aid packages in the form of coalition support fund and assorted fundings. This resulted in phenomenal growth figures during war years but later deflated <sup>to</sup> a huge degree, especially after the financial crisis. According to the world bank, Pakistan's growth rate remained at an average of 6.12% for five consecutive years from 2003-2007 before dropping <sup>to</sup> less than 2.5% for the period 2008-2012, the same time at which Bangladesh was averaging 5.92% growth rate. So foreign aid did not help in achieving sustainable economic stability.



Aid dependent countries keep coming back for more. Once those economies experience the slight betterments brought about by the foreign aid, their dependence on it grows even more. In such a scenario, those economies keep spending on projects that have no potential for return and keep going back for aid. Egypt is a prime example in this regard. On its way to building a brand new capital city four times the size of Washington D.C. worth over 59 billion dollars, 2023 figures of IMF show that it is also the second biggest ~~to~~ debtor globally, owing the fund a total of 18 billion dollars. This stark contrast has inflated the debt ~~of~~ to almost 87% of its GDP, causing it to take out more loans and financial aid. This vicious never-ending cycle spells disaster for an economy and serves to destabilise it.

International donors and debt agencies bring about impractical Structural Adjustment Policies which negatively impact the social alleviation programs. These policies not just hamper the progress of the underprivileged, but also cause gender gap in the workforce. Pakistan is also currently a victim of these policies. In the latest quarterly review, IMF advised the curtailment of Rs. 800 billion worth of subsidies set aside for public of the lowest strata of society. The fund also advised reduction in budget allocated towards BISP which focuses mainly on participation of women <sup>in</sup> economy and poverty alleviation. These adjustment policies create not just gender discrepancy but also actively prevent a large segment of population from working in economy, thus destabilising it.

The lack of a proper mechanism to track the flow of foreign aid is also a major reason for destabilization of an economy. Numerous international organizations such as Transparency International publish multiple reports every year detailing suspected embezzlement of funds worldwide, but have till now come up short on developing a comprehensive system to accurately track the flow of foreign aid through the countries. ~~The~~ The absence of such a complete and universal system, along with mismanagement of the administration, ~~the~~ the use of foreign aid remains ambiguous and raises a lot of eyebrows.

Foreign aid providers became a threat to the national security of the other countries, in the long run. This is manifested through the forfeiture and takeover of national assets of debtor countries. The countries receiving the financial aid either as gratuity or ~~as~~ as terms of default on loans are forced to transfer the control of important assets to those countries and entities. The most recent case of this is Sri Lanka. Since the start of announcement of BRI, it had been receiving massive aid from China in form of ~~ex~~ grants and loans. After defaulting on a loan of 1.3 billion dollars, Sri Lanka surrendered Hambantota port, its most important one, on a 99-year lease to Chinese authorities. Although the port was said to be used for exclusively economic purposes, it is not confirmed ~~whether~~ ~~if~~ if that is the case. This caused the Sri Lankan government to pass other stringent measures as well, further destabilising its economy.

In light of the arguments listed before, it seems more plausible that foreign aid does not help in achieving economic stability. It artificially inflates the country's economic indicators which crash as soon as foreign aid stops. Foreign aid hooks the economies and then they refuse to let go of it, suffering major problems and becoming unstable when the expenditures far exceed the income. Foreign aid also causes the exploitation of the downtrodden by halting their projects for their development, in effect preventing a large portion of population participating in betterment and stability of an economy. Absence of a proper monitoring system means that the ~~from~~ foreign aid does not get to where it's intended to go and that causes a chain reaction of mismanagement. ~~and~~ Foreign aid puts national security of a country in jeopardy due to threats to its economic security. Unless measures are taken on a global scale to minimize the negative impacts of different forms of foreign aid, it looks more apparent that it is adverse for stability of an economy.