Mian Farzeen

# Essay Mock on Economy

## "Economies Cannot Thrive on Aid Alone"

→ Outline

1. Introduction

2. Reasons Why Economies Cannot Thrive on Aid Alone

2.1 Aid prioritises short-term economic goals over long-term growth

2.2 Aid comes with strings attached which restricts country's autonomy

2.3 Giving up certain level of sovereignty in exchange for aid reduces capitalisation of country's economic potential

2.4 Aid reduces drive within a country to work and innovate to achieve growth.

2.5 Dependency created by aid is detrimental to economic growth due to over-reliance.

2.6 Aid solves short-term liquidity issues and fails to address structural problems which are vital for economic growth.

2.7 Aid promotes a culture of inefficient utilisation of funds and corruption.

2.8 Aid dependency undermines local governance ability.

2.9 Inefficiency in system disrupts social equity and economic growth potential of a country over an extended period.

## 3. Barriers Faced by Economies Overly-dependent on Aid

3.1 Inability to exit aid dependency.

3.2 Over-reliance on aid by political leaders for survival and short-term gains.

3.3 Compromised economic plans which are unsustainable without aid injection in the short-term.

3.4 Psychological trap on financial aid dependency over self-sustainability.

## 4. Alternative Pathways to Achieve a Thriving Economy and Overcoming Overreliance on Aid

4.1 Implementation of long-term sustainable economic growth plans.

4.2 Focus on proper policymaking with set objectives over short-term political stunts. with focus on self-sustaining growth.

4.3 Internal political and governance reforms to ensure proper functioning of economy.

4.4 Promote domestic innovation, entrepreneurship, and exports.

4.5 Attract FDI and boost trade to solve liquidity problems.

## 5. Conclusion

The concept of aid within modern economies mainly emerged during the 1970s when the institutes of the began ti stregnthened themselves Bretton Woods System began to stregthen. Under the neo-liberal economic policies of United States, large amounts of financial help from the financial institutes to the developing world began. Over time bilateral aid for purposes such as military also become a common practice. While the U.S marketed aid as a means of developing the third world, critics viewed it as neocolonial practice. The critics have majorly been proven to be correct. corrected Aid is not sustainable in the long-term and economies cannot thrive on aid alone. The comfort and dependency created by aid has limited the organic economic growth which could have emerged within the recipient countries. Countries dependent on aid for economic survival, restrict their autonomy in decision-making and fail to undertake necessary structural reforms which are vital for long-term economic growth and sustainability. Aid solves short-term liquidity issues but fails to stimulate economic growth. However, dependent economies find it hard to create independent economies once stuck in the trap. Economies must pursue alternative pathways to achieve a thriving economy within which aid is either limited or eliminated.

When an economy receives aid, it is against certain objectives. International financial institutions like International Monetary Fund (IMF) or the World Bank, create a list of goals which are to be achieved by the recipient country utilising the aid. The goals are created with consultation with the recipient country but the donor holds the major say in the finalisation. International financial institutions usually follow a one-size-fits-all strategy and prioritise short-term goals over long-term. The focus on short-term goals by these institutions is not because of short-sightedness but due to ulterior motives. These institutions have to justify the aid to their donors and to show tangible results they emphasise on achieving short-term goals. As a result, the receiving countries abide by the demands put forward by the institutions and start to prioritise short-term goals over much needed long-term objectives. Eventually, these steps suppress economic growth.

Aid is considered as a tool exploited by the developed world to control the developing world. Aid mostly comes with certain strings which serve the purpose of the core countries at the expense of peripherial countries. These demands are usually not beneficial for the recipient countries and restrict the country's decision-making autonomy. For example, aid from IMF comes with Structural Adjustment Programs (SAPs). Countries which wish to take aid from IMF need to implement SAPs, regardless of whether the SAP is aligned with the country's interest. This is a clear indication of restricted autonomy. At times, the SAPs are not suitable to local conditions and negatively impact the economy. Bilateral aid at times comes with demands which benefit the country giving the aid. For example, strong economies usually add the demand plz write some examples of free trade agreement with weak economies. These agreements help the giver while the recipient economy ends up being exploited with a much weakened economy.

Restricted autonomy is linked

with giving up certain level of sovereignty as well. Bilateral aid usually has demands which limits the sovereignty of the recipient country. For example, post-9/11, The United States provided Pakistan with approximately $33bn aid in exchange for utilisation of Pakistani territory for their war in Afghanistan. Similarly, China provides aid to Pakistan with loans and incase Pakistan fails to pay back the loan, the country would surrender the Gwadar port to China for several years. ~~In 2018, Sri lanka gave up control of Hambantota port to~~ China for several decades due to failure of repayment. Thus, aid mixed with loans do restrict a country's sovereignty. The donor usually demands the recipient country to surrender certain level of sovereignty to achieve its own strategic objectives in exchange of aid. These measures restrict a country's ability to properly capitalise on its own economic potential because of the inability to properly utilise its own strategic ~~objec~~ assets.

Aid is considered as an easy way out. Despite its long-term damaging effects, it does provide short-term relief. Moreover, aid dependent economies become regular aid seekers. The ease created by aid reduces a country's drive to work and innovate. The elimination of the fear of survival due to the presence of aid makes countries redundant. This is a major reason why aid dependent countries like Argentina and Pakistan have miserably failed at innovation. India ended the dependency in 1990s which allowed it to work hard and innovate, leading to consistent 5%+ economic growth. The laid back attitude promoted by aid limits a country's potential to achieve growth.

The laid back attitude ~~further fuels dependency~~ on aid which ~~leads a country to be encircled by aid trap. Due to lack of innovation~~ and reduced work rate, ~~a~~ the country ends up being overly reliant on aid. The dependency created by aid becomes detrimental to economic growth. The aid cycle allows donor to further exploit dependent economies which leads to further reduction in autonomy and sovereignty of the country. Resultantly, prioritisation of short-term goals and lack of sustainable economic plans becomes a norm. Eventually, these economies fail to achieve growth and become redundant. Absence of alternate growth plans due to complete focus on aid becomes lethal, and a series of bailout packages becomes a requirement for survival.

Economic growth requires a supportive environment. Injection of funds through aid provides a short-term fix for liquidity issue. Entire economic dependency on aid is an unfeasible and unsustainable option. Aid fails to address structural problems which are the main reason behind a weak economy. However, as aid provides short-term liquidity relief and comes with certain reforms, the real problem is often overlooked or ignored. Aid dependent economies continue to attain short-term liquidity reliefs

stich lenghty phrases does not convey any meanings

and continue to implement weak and unsustainable policies provided by the donors without addressing the key structural problems which are The real reason behind lack of economic growth.

Aid further fuels inefficiency and corruption. The apparently easy aid money is inefficiently utilised by The recipient countries. The political class prefers to use aid money for short-term fix to attain tangible results to attract The electorate. Moreover, The funds are usually mismanaged and fall in the hands of corrupt officers. Such practices have a significant damaging impact on The economy because aid dependency is created and policies That come with it are implemented but no real benefit is attained. Due to mismanagement and corruption the recipient country is only left with negative consequences which ~~are~~ further derail the economy. The reason behind This is the lack of oversight and proper accountability of The funds. Critics of aid have often stated That The donors Themselves provide relaxations to control The political class for Their own purpose later. Amidst all This The economy suffers.

Countries which have aid dependency problem usually have a weak local governance system. Such countries prefer and promote centralized structures which undermine local governance ability. Due to weak or non-existent local governance structure, economy suffers and problems at the local level are ignored. The ignorance at the local level and inefficiency at the central level lead to instability which creates an unsuitable environment for economic growth.

Resentment at the local level and ineffective local governance, fuels inefficiency in the system. The system fails to uphold social equity and significantly weakens the economic growth potential of an economy over an extended period. In the bigger picture the problem is linked with aid dependency. Due to focus on aid, structural problems are ignored. The ignorance creates instability at the local level which remains unresolved due to weak local governance systems. The flawed system, plagued by corruption further fuels the inefficiency. Resultantly, social equity is disrupted and a country's economic potential is weakened in the long-term.

Economies focused on aid for growth face serious barriers which restrict their potential and trap their ability to exit from the over-dependence. The major barrier faced by such economies is the inability to exit aid dependency. The cycle of dependency is vicious and dependent economies undermine all alternative pathways which makes them stagnant. ~~The exit is difficult because trapped economies find it hard to survive without aid injections.~~ These economies have weak structures which cannot survive and self-sustain without aid.

Political leaders also get trapped in the cycle of aid dependency. Their over-reliance on aid compromises other pathways. ~~These leaders end up making decisions which restrict the economy and makes it dependent on short-term gains achieved through aid. The inability of political leaders to make independent decisions makes it harder for economies to reduce the over-reliance.~~ Moreover, the political leaders also become victim of their economic plans because they are created keeping aid at its center. These compromised economic plans are not feasible without aid and they make the country more reliant on aid.

Over time the entire country become psychologically trapped on financial aid dependency. Political leaders and policy makers are unable to design plans without the inclusion of aid. Economic policies for countries are based on aid and fundamentally the dependency becomes the only reality. As a result, the country continues to focus on aid and is unable to draw out plans which focus on self-sustaining. Consequently, the country faces a psychological block within which aid is seen as the only way to survive and thrive. However, the reality remains different and due to the disconnect such economies can only survive but not thrive.

It has been established that economies cannot thrive on aid alone. For a thriving economy, alternative pathways need to be explored while overreliance on aid needs to be reduced. The most important step is to implement long-term independent economic plans which are sustainable without aid and focus on organic growth. Multiple five-year and ten-year plans are mandatory to achieve real economic growth. Aid alone with fictitious donor created plans are bound for failure. These plans should focus on structural reforms and realistic goals which are relevant and considerate of local conditions.

These plans should be aligned with proper well-researched policy making to ensure implementation of the economic plans to achieve intended objectives. The objectives should focus on sustainable long-term growth and should not give value to short-term political stunts which show unsustainable short-term quick gains. The policymaking should be linked with on-ground reality, conducted through proper steps. Application of one-size-fits-all policies should be avoided and identification of problem at the local level should be internally examined.

The pre-requisite for economic

growth are internal political stability and good governance. If a country has political instability and poor governance structures, aid would remain irrelevant. Thus, internal reforms are necessary to address political instability and ensure good governance. These reforms would ensure proper functioning of the economy and allow the creation of an environment within which a thriving economy can be achieved.

Once stability is achieved, domestic innovation and entrepreneurship is necessary to attain economic turnaround. The focus should be on achieving high-levels of exports which provide positive balance of payments. Aid is sought by countries which have a negative balance of payments and weak domestic entrepreneurial sector. Focusing on domestic strengthening of the economy is mandatory to achieve a thriving economy and decrease or end dependency on aid. For example, in the 1990s, India began to focus on it's I.T industry. Its focus on domestic innovation and entrepreneurship not only allowed it to end aid dependency but helped it achieve a thriving economy due to exports.

An alternative to aid for foreign injection of funds is through attracting foreign direct investment (FDI). FDI is much more positive and healthy for the economy than aid. Moreover, trade surplus also is an alternative pathway to attain foreign currency and solve liquidity problems for which aid is sought. FDI helps boost the economy and aids in attaining economic growth.

Economies which love to thrive only on aid without addressing structural problems and stregthening their domestic infastructure, reside in a superficial world. Aid is meant to ease economic crisis in dire situations when the only goal is survival. For economies to thrive the objective should be set and internal efforts must be undertaken to achieve growth. Economies trapped in aid dependency cycle should exit by adopting the alternate pathways which offers a more sustainable route. All Thriving economies are independent and self-sustain Themselves while ~~all~~ majority weak economies are aid seekers. The reason why weak economies are weak is because of Their inability to understand or accept That economies cannot Thrive on aid alone.

overall good attempt