

# Does foreign aid help to achieve Economic stability?

## (1) Introduction

The effectiveness of foreign aids have remained a critical and unsettled issue, at theoretical and empirical level. But, from a broad perspective foreign aid has failed to achieve economic stability for a country. Foreign aid could help upto some extent, if implemented with strong structural policies.

## (2) Understanding foreign aid's purpose and its nexus with economic stability

### (3) Economic stability can not be achieved with foreign aid

a Historicizing failure of foreign aid to enhance economy (case study of Pakistan: Asia's one of the biggest foreign aid receiver).

b Foreign aid donors are establishing a new era of colonialism rather making economies strong (Discussing the case of Africa; the biggest foreign aid receiver of world)

c Foreign aid serves the vested interests of donor not the interests of recipient.



(statement of US state department)

d Mostly foreign aids are military aids which have no bearing on economic stability (Egyptian military dictator's era)

e Foreign aid makes an institute economically dependent rather than producer (Example of PIA, 26% aid receiver in 1990-1991)

(4) Although foreign aid has failed to achieve economic stability but, it has always served as 'a boat for sinking economy of state'

a foreign aid helps a country to avert economic default (Pakistan balance of Payment crisis 2023 and role of foreign aid)

b Foreign aid steers to poverty eradication rather promoting colonialism (Bill Gates's remark) on "Bill and Melinda Gates foundation")

c Foreign aid do not serves donor's interests but provides country a chance to retrack economy (Economic default of Sri Lanka and the role of foreign aids)

d Foreign aid provides economic stability at the hour of economic depression (Turkiye quake 2023 and global aids)

e Foreign aid helps economy to bear the expenses of development projects



(Foreign aids role in the construction of Tarbela and Mangla dams)

(5) No doubt foreign aid accomodates economy in some ways but, still it is a curse not a blessing for economy

a Foreign aid is nothing without structural reforms (Akbar S Ahmed's book : Issues in Pakistan's economy)

b Recipient countries have to understand that investments not aids are the solutions (Report of Canada's international development agency 2002)

c Countries should never undermine national interests by serving donor's policies (India crushed the begging bowl and achieved economic stability)

d Military and non-project aids have always exerted negative impacts on economy (Pakistan development review report 2007)

e Institutions without institutional reforms cannot flourish on foreign aid

(6) **Conclusion**

one can find mixed results of foreign aid but, it is not a feasible way to achieve economic stability neither it can do so.



Andrés Velasco the dean of London school of economics, aptly expressed his opinion that "Nothing hampers the country's economic prosperity the way foreign aid does". His views exactly relates with the current global economic system. All, majority of the countries around the globe seem to be donor dependent but, so far their economies always remained in shambles. Foreign aids play mixed roles for different economic structures in different scenarios; like, in some situations it helps an economy to escape defaults, eradicate poverty and easing the development burden. But at the <sup>same</sup> time it plagues the economy with a dependency disease along with twenty first century's economic colonization. Looking from a broad perspective it makes one clear that foreign aid has failed to achieve economic stability for an economy. Foreign aid could temporarily stable an economy only if implemented along with strong structural policies.



Foreign aid has historically remained a best way to quicken the economic drums. But it had never showed any far reaching impacts for an economy. There is no doubt that foreign aid has many benefits in different domains which can lift an economy from the default quagmire. But this is not exactly what an economy needs, an economy needs a long term remedy that could overcome ~~its~~<sup>its</sup> issues and makes an economy the best version of itself.

Now, let's have a glance that why economic stability cannot be achieved through foreign aids.

First of all let's historicize the failure of foreign aids to enhance an economy. At many occasions, historically, foreign aid failed to lift an economy up to the stability level. Many countries globally have had been receiving enormous amounts in foreign aids but the same countries



always remained at the origins, they showed no progress at all. Like Pakistan which is one of the biggest foreign aid receiver <sup>country</sup> in Asia. From 1960 to 2002 Pakistan received around \$73 billion dollars in foreign aid. This gigantic amount ~~could~~ have done better things if it was not an aid but an investment. The case study of Pakistan showed that foreign aid can not lift an economy.

Also, there is another argument on foreign aid that it promotes donors colonialism rather than making recipient's economy strong. A donor always searches for some return benefits from receiving country so he can balance his equation of investment and profit. Globally many regions have become the colonies of donors from where they ~~donors~~ get desired outputs by manipulating the social structure of countries. For example ~~the~~ Africa has remained world's biggest foreign aid



receiver historically. Almost every international organization is working there but, still Africa is snowed under poverty, hunger, crimes and weak economy. This is all because donors don't care to lift their economy but they only want to meet their own aims. This makes countries mere colonies of donors which are solely dependent on their masters.

Similarly, foreign aid serves the vested interests of donor not the economic stability. Mostly the foreign aid is spent where the donor want it to be. A recipient has to follow the structural procedure of donor as the United States department officials admitted that they consider foreign aid as a tool of US' foreign policy to advance economic interests and secure new markets. It makes clear that the foreign aid is actually a way for donors through which they tap new markets.



Meanwhile, foreign aid cannot stabilize an economy as the donors get some other axes to grind. It should also be considered here, that mostly aids are military aids which have no bearing on economy. Military aids are the most usual types of aids where a country receives foreign aid just to spend on military purpose. These types of aids owed no obedience for economic stability. It has remained Egypt's history of receiving military aids. Being America's all weather ally, Egypt had received enormous military aids in the era of Abdel Fatch Al-Sisi. But after all this his tenure remained economically drowned. Because every penny of aid was spent on military purposes so this shows that foreign aids cannot stabilize an economy. Eventhough, if a particular sector starts getting foreign aids it becomes economically begger not a producer. Foreign aids



makes a sector lethargic and inefficient. There is a Chinese proverb that "if you want to help a poor, teach him how to catch a fish. do not give him a fish". But foreign aids ~~do~~<sup>always</sup> serves a fish, like they does it to PIA. PIA received 26% of total foreign aid in 1990-1991. but it never became an asset for Pakistan. foreign aids made PIA a burden on Pakistan's economy.

After discussing how foreign aids failed to stable economies lets give it a detailed discourse that in what ways it serves as "the last boat for sinking economies".

Firstly, foreign aid helps a country to avert economic default. Many countries globally had faced economic defaults like Brazil, Sri Lanka and Pakistan whereas, foreign aid always countered the situation. Foreign aid through a quick fin in economy helps a sinking economy to rehabilitate




like in 2023 after the ousting of PM Imran Khan, Pakistan's economy reached at the brink of default due to political bue and cry. But foreign aids from Saudi Arabia and China saved Pakistan from default. This way foreign aid helped Pakistan's economy to avert the default ~~crisis~~.

Secondly, foreign aid also ~~steers~~ steers to poverty eradication rather than getting blamed for promoting colonization. Many countries in the world are solely working on foreign aids because of lack of resources. Foreign aid is helping global economies to eradicate poverty through welfare works and donations. Bill Gates, President of "Bill and Melinda Gates foundation" argues that aid is an effective way to lift poverty. Foreign aid provides an economy a free flow of money which they can use for social works. In this way foreign aids helps an economy to eradicate poverty.



In the same way, foreign aid do not serves donor's interests, rather it retracks an economy. Economic ups and downs are an order of the day in modern economy. But foreign aid plays a crucial role here to retrack an economy by providing it a new track.

The moral can be taken from Economic default of Srilanka 2022 which froze the whole structure of the country from trades to food supplies. At that time countries like India provided aid to Srilanka. Those aids pushed Srilankan economy again on the track.

Similarly foreign aid  lays out economic stability at the hour of natural disasters. It stabilises economy when resources become shambled due to any type of calamities. Foreign aid provides a country an economic backup till it recovers from the issue. As In 2023 Turkiye one of the fastest growing economy



of Europe struck with worst earth quake of its history. All at once economy became drowned, but, foreign aids hold the economy along with rehabilitation of society. foreign aids stabled economy where it was before the disaster. This way foreign aid stabled an economy. finally, foreign aid stabled economy to bear the expenses of development. It puts some extra credit in the development pool of the country. from where the burden of development becomes less from economy. Lets take the example of Pakistan. In early independence era Pakistan was not capable enough to bear the expenses of factories, dams, and all. But only because of foreign aids Pakistan successfully built Tarbela and Mangla dams. It makes clear that how foreign aids help an economy to bear development expenses.



Before ending the discussion it is very relevant to discuss that whether foreign aid accommodates an economy in some ways but no doubt foreign aid is still a curse not a blessing for Economies.

There must be no doubt that foreign aids are nothing without structural reforms, like taking foreign aid alone, it seems like a wayward flow of money and nothing else. Without structural reforms foreign aids cannot be utilized in the desired way and neither these can produce desired economic benefits. Akbar S Zaidi in his book "Issues in Pakistan's economy states" with donor dependence and foreign funding and without structural adjustment the economy cannot return back on track". So it proved that foreign funding itself cannot stable economy.

Also, the countries have to understand that investments not the aids can stable their economies. Foreign aid provides a temporary stability to the economies but



when the flow of foreign aids stop it halts the economic progress. In contrast to this Investments provides a feasible long term economic stability. A Canadian international development agency report in 2002 stated that "Good governance, sound policies are most important determinants of aid effectiveness. So if a country donot have all of these, what will happen to her aid? It will surely won't give desired economic outcomes.

Meanwhile, countries must never undermine their national interests by serving donor's policies. Serving donor's interests only benefit them whereas the recipient's economy struggles the same problems. There are many examples globally where countries did not serve the donor's interests and enhanced their economies way better than others. for example India crushed the begging bowl and achieved economic stability whereas, her neighbours like Bangladesh and Srilanka got their self in debt trap. It is all about perception of a country



-that how do they want to see their economy.

In the same way, military and non-project aids have always exerted negative impacts on economy. These aids used in specific sectors which have no direct influence on economy. But mostly foreign aids come in the shape of military aids or non-project aids. According to Pakistan development review 2007, Non-development projects exert negative impacts on both short and long terms. So this shows that foreign aids which mostly countries receive have no direct impact on economies.

Last but not least, that an institution without institutional reforms cannot flourish solely on foreign aids. Foreign aids could be a second option for an institute but at first they must try to enhance institutional structure. No sector in the whole world solely dependent on foreign



aids. Institutions like WAPDA, Pak railway, DIA, Karachi steel mill had received enormous amounts in foreign aids but still they are a burden on economy. It shows that foreign aids failed to ~~stabilize~~ stabilize the economies of these sectors.

In a nutshell, one can may find mixed results from foreign aids. Like at the time when it curbs the original growth of economies with dependency syndrome, slowly weakening the economic institutes of country at the same time it also helps economies to get temporary stabilities, so they can prepare for better initiatives. But foreign aid is not a feasible way to achieve economic stability neither foreign can provide so. countries have to search some other means to get economic stability.