

# Does Foreign Aid Help To Achieve Economic Stability?

Outline:

## ① Thesis Statement:

Mobilisation of foreign aid from a donor country towards a recipient country entails one of the factors of stabilising economy. It is evident through the application of structural adjustment policies from donor <sup>organisations</sup>, Foreign Direct Investment (FDI) by developed countries, and enhancement of economic portfolio of developing countries.

## ② Foreign aid disbursement structure:

2.1 Types of donors; multilateral or bilateral donors

2.2 Types of aid project; Trade tied or untied

3 Composition of aid; commodity, grant, concessional loans.



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### ③ Foreign aid leading to economic stability

3.1 Through application of structural adjustment policies; fiscal monetary policies of International Monetary Fund (IMF) and civil service reforms of World Bank (WB)

3.2 In form of Foreign Direct Investment (FDI), Pakistan leveraging from China Pakistan Economic Corridor (CPEC)

3.3 Providing security structure for stability: increased aid flow to Pakistan during Afghan-Soviet war

3.4 Investment in public development projects; Green revolution and start of Pakistan steel mills with US economic aid.

3.5 Reducing market barriers and targeting areas of good governance; Monetary Consensus of Development

2002.



3.⑥ Structuring : Privatization reforms,  
Millennium Corporate Challenge

3.⑦ Trade attached aid; Increased trade  
of US with recipients of aid that are  
Korea and Brazil.

3.⑧ Through peace keeping mission;  
USAID peace keeping mission deployed  
in African states

3.⑨ Provision of Economic reconstruction  
mission; Marshall Plan of US

4.0  
⑩ Economic Portfolio diversification;  
Post genocide Rwanda build up in 1994.

## ④ Foreign aid reflecting economic instability.

4.1 Display of debt trap diplomacy.

4.2 Entrapment in poverty trap cycle

4.3 Chances of fungibility and volatility  
of foreign aid.

4.4 Dependency of developing countries  
through passive decision making.

## ⑤ Recommendations to strengthen the objective of economic



## Stability of foreign aid:

- S.1 Providing certainty in disbursement of aid by developed ~~and~~ countries
- S.2 Mitigating the issue of debt trap.
- S.3 Investment of aid in long term

Stable projects

## 6. Conclusion



The provision of foreign aid by developing countries to developing one revolves around the achievement of myriad of factors with ranging from dealing with humanitarian crisis to economic stability. Flow of foreign capital explicitly displays an affect on the economic structure and gain of the recipient state.

It allows the fiscal assistance through dissemination of fiscal cushion and breathing space to policy makers. The display of positive outcome of foreign aid mobilisation is with the help of providing conducive environment, expanding the ambit of recipient country in international market while expounding the policy structure of low income countries. Therefore, the mobilisation of foreign aid from a donor country towards a recipient country entails one of the factors of stabilising economy.



It is evident through the application of structural adjustment policies from donor organisations, Foreign Direct Investment by developed countries, and enhancement of economic portfolio of developing countries.

The structure of disbursement aid ranges from <sup>different</sup> donors to the multiple systems of dissemination of aid, and composition of the aid that is provided. Types of donor includes multilateral organisations composed of World Bank (WB), International Monetary Fund (IMF), and United States AID (USAID). Donors can also be in the form of bilateral in which direct contact of government to government is present. Furthermore, provided aid can be project tied or untied. Project tied aid makes the recipient country



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liable to be undertake project  
commitment with the donor country.  
Moreover, composition of the aid  
also plays an integral part of in  
aid ~~des~~ dissemination. Either it can  
be in the form of tangible commodity,  
or grant, and even in the shape  
of concessional loans with prolonged  
period of repayment. Hence, the  
foreign aid disbursement is built  
upon the multiple tiers of donor,  
institutes, type of aid and composition  
of aid.

There are multiple aspects where  
the disbursement of foreign aid has  
led to ~~the~~ a stable economic  
position in the recipient country.  
Firstly, the stringent application  
of Structural Adjustment Policies (SAP)  
by supranational institutes provides  
a ~~rob~~ bolstering of the domestic  
framework of the state. International  
Monetary Fund, plans the disbursal



of tranche on the basis of

application of fiscal policies

Such monetary policies include

reduction of  $\pi$  in subsidies, overhaul

of tax architecture and privatization

Moreover, another institute in

form of World Bank (WB) focuses

on the imposition of reforms in

the administrative structure in

especially bureaucracy. Therefore,

the disposal of foreign aid

directly aligns the policy prescription

of the country leading towards economic stability.

Secondly, Foreign aid can be

in the form of Foreign Direct

Investment (FDI) leading the

country towards development.

Foreign Direct Investment allows

the developed state to build

and utilise the infrastructure of

the developed & developing states,

while leveraging the economy of



the latter. One of the biggest FDI ~~is~~ seen in Pakistan's history is in the form of China Pakistan Economic Corridor (CPEC) initiated by China. This \$62 billion investment gives an exponential boost to Pakistan's economy, while utilising the indigenous resources available in country. Therefore, foreign aid in the form of major investments straightens the path towards economic stability.

Thirdly, foreign aid in the form of tangible products can benefit the be advantageous for the beneficiary through fostering of defence system. Many a times, military assistance aids the underdeveloped nation to gain <sup>economic</sup> composure in the geopolitical arena. As seen during the Soviet-Afghan war era, Pakistan faced an increase mobilisation of funds



from the western world. This military and monetary assistance enabled Pakistan to see an accelerated trajectory of growth. For this reason, international aid accoutres a country to gain economic balance.

Fourthly, the disposal of overseas aid assists a country developing country to incline towards public development projects. Sufficient financial funds allows a country to show proclivity in enhancing the public sector of state. Similar case seen in Pakistan, where the initiation of green revolution and start of Pakistan Steels Mill stands on the foundation of aid given by US. The A rise in financial stability allows the country to focus on the public projects sector to harness benefit



for the society. As a result, the acquisition of foreign aid by a recipient state, allows one to thrive in public sector.

£ Fifthly, <sup>sometimes</sup> the provision of foreign aid is based on the idea of opening of market reforms and curtailing the trade barriers. Opening up of the trade market to policies and reducing barriers, allow a country to diversify its export products.

Monetary Consensus of Development 2002 redirects a country to reflect on the trading policies and good governance to be allowed for gaining financial assistance from international institutes.

The guidance provided by donors on the basis of adopting certain path assists the underdeveloped states to reinvigorate their system.

Hence, the acquiring foreign aid is built upon the idea of gaining



economic stability.

Sixthly, the disbursement of foreign aid sometimes require the receiver ~~to~~ to accelerate upon the privatisation reforms. Privitization enhances efficacy and productivity of a country, while allowing it to properly utilise the financial assistance. Millenium Corporate Challenge (MCC), a USAID agency directs fund to poor countries with sound privitisation policies. Such dictation of disbursement of tranche instigates a country to look towards privitisation. Hence, the gain of foreign aid by beneficiary, guides it to straighten its path towards economic stability.

Seventhly, project tied aid compels the under developed nations to enhance their engagement



with the benefactors. Project or trade tied aid ~~ex~~ provides an easy conduit for the recipient to accelerate their commerce.

Consequently, foreign assistance provides leverage to the developing states, while ~~en~~ reflecting the prospect of flourishing economy. As seen in case of Korea and Brazil, US has

shown an exponential increase ~~in~~ trade with these two countries

on the basis of first providing aid compensation. Consequently, foreign assistance provides leverage to the developing states, while reflecting the prospect of flourishing economy.

~~Eight~~ Eighthly, peace keeping missions are also providing a different aspect of foreign assistance

Several countries ~~of~~ in world, are inflicted by the contagious



wave of civil war and internal conflicts. In this aspect, USAID is providing peace keeping missions in several African states. The presence of peacekeeping mission in rebellious areas allows the build tone down of conflict and provides semblance to gain financial stability. Therefore, the international assistance involved in providing peace in conflicted areas, acts as building blocks to achieve economic prosperity.

Ninthly, foreign aid can assist the build up of war torn areas and providing them guidance to ~~be~~ shape an economic framework. Multiple scenarios in history reflect the dire situation of the war torn countries. The most prominent one is the state of European



countries after World War II, where the  
propagation of Marshall Plan by US  
allowed the rise of European countries  
again. Marshall plan revolved around  
the idea of providing <sup>only</sup> financial  
breathing space to policy makers,  
while allowing them to restructure  
the economic framework. Therefore,  
the injection of foreign aid, proves to  
revitalised ~~the~~ revitalising the  
economic integrity of the beneficiary.

Tenthly, foreign assistance can  
rejuvenate the economy of  
the country through providing  
diversifying their economic portfolio.  
The pillars of economic revenue need  
to be build up on multiple aspects  
of revenue generation, explicitly  
which sometimes require monetary  
support. Post ~~war~~ <sup>genocide</sup> build up of Rwanda,  
explicitly displays the effectiveness  
of foreign aid. Correct usage of  
foreign aid diversified the economic



portfolio of Rwanda, through enhanced focus on research and development. Hence, the mobilisation of foreign aid ~~also~~ develops a robust structure of economy.

In contrast with the idea of stable economic stability being provided by foreign aid, the paradoxical affect of foreign assistance is also seen. In the first place, the most prominent one is the ~~debt~~ debt trap diplomacy, prominently seen. This notion is build on the idea of exploitation of indigenous resources and providing minimum profit to the under-developed state. Multiple regional projects including One Belt and Road Initiative are marked as the advocates of providing debt trap diplomacy. Therefore, the flow of foreign aid, <sup>sometimes</sup> confers upon the idea of exploitation



and leading towards economic  
instability.

In the second place, a perilous  
effect of foreign aid is seen  
in the form of poverty trap  
cycle. The vicious dependence  
on the foreign aid, encircles  
a country and compels it to  
gather foreign assistance again  
and again. This dependency of  
foreign assistance is overtly  
pointed by the developing countries  
towards the donor institutes  
by the developing countries.  
Either multilateral or bilateral  
donors, the presence of entrapment  
restricts a country from achieving  
economic stability. Consequently,  
the course of international  
assistance propels a state to a  
critical juncture.

In the third place, multiple



other weak factors are displayed by the foreign assistance. They are in the form of fungibility and volatility, where the usage presence of foreign aid reflects the negative point. Due to presence of fungibility of aid, utilisation of aid in other than

assigned domain constructs a problem. Moreover, the unpredictable nature of acquiring financial help, enhance the prospect of volatility. Therefore, the acquisition of foreign aid debilitates the system to some extent.

In the fourth place, foreign aid ~~is~~ originates passivity in the beneficiary states. The notion of flow of financial reserves from the developed countries, renders the recipient ~~pas~~ slow down in taking & robust steps, while correcting the



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domestic landscape of the country.

This passive behaviour leads to decreased concentration of policy makers towards strengthening the economic integrity of the state. As a result, continuous mobilisation of ~~to~~ international aid incapacitates the underdeveloped countries to gain economic balance.

The provision of foreign aid, can open widen the scope of economic development through inclusion of certain features. The first priority, should be given to disbursement of foreign assistance without the issue of uncertainty and influence of political gain. Then the issue of exploitation of natural resources by the developed states should be addressed ~~to~~ to neutralise the reflection of misuse. Moreover, the onus of correct utilisation of foreign assistance lies with the



developing nations, to correctly invest the aid in achieving long term goals. The On that basis, the parochial vision of economic instability attached with international assistance can be toned down with correct implementation includes generation of certain features in aid system.

In crux, the flow of foreign aid possesses multiple lucrative benefits for the benefactor and beneficiary to acquire. The mobilisation of foreign aid assists a country to reinvigorate its financial structure in accordance with the Structural Adjustment Policies (SAP), opening up of the market reforms, providing peacekeeping missions and fiscal support in form of FDI. Moreover, certain loopholes in form of fungibility, volatility and passive decision



making of the recipient country is also explicitly seen. Integration of certain features in form of abetting debt trap diplomacy and ~~a~~ resource exploitation can further strengthen position of foreign aid. Hence, the road to economic stability is paved through the foreign assistance.