

# Does Foreign Aid Help to Achieve Economic Stability?

## 1) Introduction.

### 2) Foreign Aid does not help to achieve economic stability:

- 1) Foreign aid can provide temporary relief to a state's economy.
- 2) It creates economic ~~indep~~ dependence which hinders economic stability.
- 3) Foreign aid fails to create employment for people on a bigger scale.
- 4) It does not reduce reliance on less developed countries on imports which is the major cause of economic instability.
- 5) Does not help in alleviating poverty completely.
- 6) Depreciation of a particular currency cannot be stopped with foreign aid.

- 7) Inflation is a major source of economic instability and foreign assistance cannot help to reduce it.
- 8) Debt payment cannot be done through foreign aid.
- 9) Throughout the history of nationhood, no country prospered by mere foreign aid.
- 10) Foreign dependence can lead to decreased foreign investments.
- 11) High taxation <sup>system</sup> cannot be controlled through foreign aid.

### 3) Conclusion.

Barry Buzan said, "Out of the five sectors of security, economic sector ~~has~~ is the most significant sector which is the crown jewel stabilizing all the other sectors".

Economic stability can only be achieved through economic reforms and homegrown policies, and not through foreign aid. Foreign aid can temporarily benefit an economy. Moreover, economic dependence is a result of foreign aid. Not only

this, but foreign aid also fails to create job opportunities for the citizens. Reliance on exports cannot be reduced as well. Additionally, complete elimination of poverty cannot be ensured through foreign aid. Furthermore, devaluation of currency cannot be controlled by foreign aid. In addition, inflation a serious issue, cannot be reduced via foreign assistance. Also, debts cannot be payed back by such smaller amounts. Indeed, foreign aid does not ensure economic stability in a state.

Foreign aid can temporarily uplift the economic conditions of a state. Temporary solutions usually do not help in the longer run. With foreign aid, a state can barely fulfil its obligations to promote economic wellbeing of the people. Moreover, it can create short term stability by paying smaller debts or importing ~~certain~~ necessary items. According to a survey conducted by PIDE, Pakistan's economic situation did not get any better during Global War on Terror despite receiving foreign aid worth a billion dollars. Thus, foreign aid fails to create long term stability.

Foreign assistance creates economic dependence. Economic dependence means to depend on another state for help in dire situations. Economic dependence puts a halt to economic reforms, causing economic instability. Furthermore, it hinders innovation in youth which promises economic stability in a country. In a research paper, Bangladesh was praised for becoming economically independent. It attained this level of prosperity by avoiding dependence and bringing encouraging innovation, youth empowerment, robust policies etc. Therefore, economic dependence is a result of accepting foreign aid.

Unfortunately, unemployment is not alleviated through foreign aid. Unemployment refers to the unavailability of jobs for people in a country. The amount of foreign aid is meagre which cannot provide people with jobs. Additionally, unemployment ultimately leads to poverty and economic instability. According to PIDE surveys, the inflation rate in Pakistan stands at 17.3% despite having been receiving hefty amounts of foreign aid in the past. Thus, foreign aid, alone, can not fix the issue of inflation.

Reliance on imports cannot be reduced via foreign financial assistance. ~~Even~~ Imports are ~~ex~~ those items and products which a state buys from another country. Due to economic dependence, a state fails to empower its local industries. Resultantly, economic stability remains thwarted and quality of local products is compromised. Historical evidences show that the reason why China prospered was because it worked on its economy in isolation, while reducing imports and ~~de~~ discouraging imports. It empowered the local industries. Henceforth, ~~imports cannot be dependence~~ on imports cannot be ~~reduced~~ reduced by foreign aid.

Unluckily, poverty cannot be reduced as well. Poverty is the inability of people to sustain their financial conditions due to high inflation, unemployment, economic instability etc. However, foreign aid can temporarily "soothe" ~~the economic~~ <sup>poverty</sup> instability in a country. It still does not help in the longer run because temporary poverty reduction can put a huge burden on a state's expenditures. According to Pakistan's Ministry of Planning and Development, 65 million people are living under the poverty line despite

receiving foreign assistance from China throughout. Therefore, poverty, a major cause of economic instability, cannot be alleviated through foreign assistance.

Devaluation of currency cannot be controlled by foreign aid. Devaluation of currency means the reduction in the value of a currency vis-à-vis dollar. For increasing the value of a currency in the international markets, a state must avoid printing hefty amount of local currency, rather than relying on foreign help. Furthermore, foreign aid does not stabilize a country's local currency, instead it creates over-reliance on foreign assistance and traps a state in economic instability. According to a theorist Karl Marx, the only solution to all the problems a state faces is to uplift <sup>its</sup> economy by itself. ~~and~~ Therefore, devaluation of currency cannot be stopped by foreign assistance.

Moreover, ~~inflation~~ foreign aid is not a solution to inflation. Inflation means the fluctuation of prices of products which lead a country to the brink of poverty. Firstly, inflation is a serious issue which can only be addressed by introducing

robust economic policies. Secondly, foreign aid would have a minimal role reducing inflation due to the flaws in a country's policies. A senior economist Dr. Aneel Salman has stated that the reasons for high inflation in Pakistan are flawed economic policies, high taxes, climate change and economic dependence on other state. Thus, inflation cannot be reduced by mere foreign aid.

~~Not only this, but~~ ~~debt~~

Not only this, but debt cannot be paid by foreign aid which is the root cause of economic instability. Debt is an amount which a state takes from another entity to stabilize the economy. A debt-trapped country has to pay domestic and foreign debts to increase the trust of debt-paying company/entity. Additionally, a state would not prefer utilizing the entire aid in paying its debts, instead it would prioritize other important expenditures. A Pakistani think tank stated that Pakistan has <sup>public</sup> public debt of about 62 billion dollars. Despite receiving foreign aid from its allies like Qatar, China and Saudi Arabia, Pakistan has not been able to pay all its debts. Hence, debts cannot be paid back with foreign aid.

History has shown that ~~countries~~ nations did not prosper <sup>economically</sup> by relying on foreign aid. Economic prosperity is the means through which a country achieves economic stability. To bring economic stability, economic independence and capacity building is important and not foreign aid. Moreover, economic reforms along with efficient transparency in tax regime leads to economic stability. According to a lecturer at National Defence University, China went into isolation after World War-2 and worked on its economy by improving its agriculture and its military first. China did not rely on foreign aid and it took steps to improve its economy to become a rising global power today! Therefore, economic stability was never achieved through foreign aid ~~in the~~ throughout the history ~~by~~ nations.

Foreign dependence can also reduce foreign investments. Foreign investments are the investments of foreign companies in host country to ~~as~~ produce mutual prosperity. Foreign dependence reduces a country's trust in host country's economy. In addition, foreign investors tend to observe host country's economic conditions and after observing, they



decide whether to bring their business or not. According to Reuters, the business conditions have worsened in Pakistan and investment-to-GDP ratio plummeted to 13.1%. Thus, foreign dependence results in reduced foreign investments.

Taxes cannot be reduced by foreign aids as well. Taxes provide with a state-to-people relationship where state is held responsible on the basis of its tax collection. Higher tax level to create inflation and poverty which are bigger issues and they cannot be resolved by utilizing foreign aid. Furthermore, high taxes can be dealt by creating developing taxation reforms and organizations which keep a check and balance over the collection to ensure economic stability. According to Islamabad Policy Research Institute, 70% of Pakistan's economy is undocumented which puts the burden of taxes on middle class of the country, leading to economic paralysis. Henceforth, high taxation system cannot be dealt by foreign aid alone.

Therefore, it cannot be denied that foreign aid does not help in ensuring economic stability. A state must address the root causes of economic instability to elevate the living standards of its people. Inflation cannot be reduced by utilizing foreign aid. Also, debts cannot be ~~paid~~ paid back by only using money sent by another country. Not only ~~the~~ debts, but there can be reduction in foreign aid investments as well. It has also been observed that nations do not prosper by relying on foreign ~~inves~~ assistance for the smooth working of the economy. Furthermore, high taxes cannot be controlled by such a small amount. It also does not aid in preventing depreciation of a currency. Unluckily, it cannot even resolve the issue of poverty in a country completely. Additionally, ~~im~~ reliance on imports cannot be reduced by using foreign aid. Therefore, successful nations have always empowered their country people by <sup>making towards</sup> indigenization of industries, services etc to compete in foreign markets. Foreign aids cannot promise economic stability as they only create reliance among the states to regulate their economies.