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Foreign Aid; Road to Stability or Recipe For Disaster

'Outline'

1 Introduction

1.1) Concept of Foreign Aid; Marshall Plan

1.2) **Thesis Statement:** Foreign Aid is a complete recipe for disaster as it leads to dependency syndrome, promotes donor agenda, challenges national sovereignty and erodes public trust.

2 Why Foreign Aid is a Recipe For Disaster?

2.1) Austerity programs cut public spendings leading to social unrest

2.2) Widespread Privatization promotes elitist culture

i) Ayub Era; 22 influential families controlled state assets.

2.3) Trade liberalization endangers local industry

2.4) Challenges National Sovereignty

i) War on Terror linked foreign aid and operation Neptune Spear

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2.5) Leads to compulsive choice foreign Policy

i) Pakistan-Iran Relation in light of IMF aids.

2.6) Increases Dependency Syndrome; widespread foreign dependency reduces incentive for local production

2.7) Undermines state institution leading to corruption.

2.8) Fuels separatist tendencies within recipient nation

i) Foreign Aid to Baloch Sardars in support of separatist movement

ii) 1971, Debade; India's assistance to Bengali Separatists.

3 Way Forward:

3.1) Presence of strong leadership

i) Lee Kwan Yew; Singapore Founding Father

3.2) Utilization of foreign Aid for upgradation of local industry

3.3) Conditions linked with foreign aid should focus on rule of law and local upgradation.

4) Conclusion.

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"No nation has ever developed itself through foreign aid and external support".

Foreign aid refers to financial, technical and humanitarian assistance provided to the crisis-hit countries by the developed nations. Its purpose is to assist struggling nations to uplift economy and address humanitarian crisis. The idea of foreign aid emerged after World War II with the Marshall Plan that helped rebuilt Europe. Since then the culture of foreign aid has increased tremendously. It helped many countries to cope up with crisis and stabilize them. However, since the last few decades foreign aid has increasingly become tied with strategic, political and security objectives raising concerns about its real purpose i.e. Cold War Aid. There are many countries that despite receiving substantial foreign assistance struggling with prolonged economic stagnation and humanitarian crisis. Pakistan has been receiving foreign aid since independence, ~~but~~ still facing political, economic and social crisis. ^{It is because of the fact that} foreign aid increases dependency on external actor and reduces incentives for domestic revenue generation. Conclusively, foreign aid is a ^{complete} recipe for disaster as it leads to dependency.

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syndrome, promotes donor agenda, challenges national sovereignty and erodes public trust.

Many countries rely on IMF aid to stabilize their economy. But IMF aid comes with austerity measures i.e. reduce development spendings, subsidy cuts and increase tax base. IMF driven foreign aids oblige governments to reduce spendings on social welfare programs which means less budget allocation to education and health sector.

As a result many schools get closed and health institutions collapse resulting in increase suffering of common people. Apart from that such aids also come with subsidy cut conditions. Usually government provides subsidies on energy and agricultural goods to the farmers in developing countries. But as foreign aid comes with subsidy cut clause, the government ~~had to~~ reduce incentives for farmers, heightening miseries for poor. Furthermore, the condition of increase tax base leads to inflation and reduced purchasing power of citizens. All such factors elevates the already heightened miseries of general public leading

to societal unrest. IMF-linked austerity programs though aimed at stabilizing macro-economy but often has many far reaching implications. Reductions in subsidies and public spendings can exacerbate poverty, ^{fuel} inflation and provoke public discontent, highlighting the potential pitfall of foreign aid.

IMF-linked foreign aid comes with the condition of privatization of state owned enterprises. It obliged receiver countries to hand over state enterprises to private investors. Privatization promotes capitalistic culture, where means of production goes in the hands of few wealthy people. In ~~Pakistan~~ Pakistan Resultantly, elites ~~started~~ influencing over the state increased who then use state machinery for their own interests leaving p general public at their mercy.

During 1970's Privatization Policy of Ayub, 22 families ^{had} controlled over state assets. These 22 influential families ^{used to} influence state institution and maneuver them for their own interest. This resulted in extreme socio-economic disparities b/w east and west Pak and ~~induced~~ public resentment. leading to separation of East Pakistan.

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Apart from that privatization also leads to job insecurity and social unrest.

Trade liberalization is another one of the adverse conditions of IMF and international financial organizations linked aid. Trade liberalization means free flow of foreign products into local market. Foreign Trade liberalization endangered local industry as people prefer high quality foreign products. Resultantly the local industry collapsed. For any developing country who is struggling ^{with} industrial development, trade liberalization is a direct hit on its economy. In Pakistan local industry is crippling day by day due to variety of foreign products. In Pakistan many infant industries are unable to compete with foreign subsidised products. The true development of a nation is depend based on protectionist measures but foreign aid linked liberalization gives no space for such policies. Conclusively, Foreign aid can help a country to manage crisis for ~~short~~ temporarily but it has serious consequences in the longer run.

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~~HA~~ Aid linked with IMF, WB and other financial institution challenges the national sovereignty by prioritising donor agenda. All policies related to govt public spendings, subsidies and governmental expenditures are influenced by conditionality clauses under of financial institutions.

Austerity programs dictate how much to spend on ~~which~~ sector general public and governmental ~~prio~~ policies take back seat. Sovereignty ~~case~~ upholds that government is free to run its affairs without the interference of any external actor but such aids often ~~re~~ restrain state from doing so. After 9/11 attacks when Pakistan decided to participate in "War on Terror", billion of dollar flowed into the country in the form of foreign aid.

But that foreign aid undermined Pakistan's sovereignty, quite evident from Operation Neptune spear by US forces within Pakistan's territory. Operation Neptune Spear was a direct hit on Pakistan territorial integrity.

Foreign Aid leads towards the compulsive choice foreign policy. It undermines the state ability to pursue a free and independent

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foreign policy. A nation which has been overdependent on foreign aid shows a tilt towards donor agendas. This is evident in case of Pakistan whose ~~to~~ overdependence on foreign aid and IMF loans prohibits it from forming good relations with Iran. Pakistan fears that ~~IMF~~^{US} could penalise it in IMF for establishing relations with Iran. ~~To conclude~~ Similarly during Cold War Era, foreign aid desired Pakistan to join US camp despite of having good relations with Russia. Although Cold War Aid helped Pakistan to strengthen its economy but it brought extremism in Pakistan, an evil from which Pakistan is suffering till date.

One of the adverse effects of foreign aid is 'Dependency Syndrome'. Increased dependency on foreign aid reduces incentive for domestic production. Domestic industrial development is a major prerequisite for long term economic stability but foreign aid reduces the chances of local growth. Decrease local produce ^{also} leads to increased imports. As a result trade deficit scales up. ~~It~~ and

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economy collapses.

Foreign aid undermines government and state institutions. When a substantial share of government revenue comes from foreign donor rather than domestic taxation, then the traditional accountability relationship between government and state weakened. The government started reporting to foreign agencies and upholds their conditions rather than responding to the needs of the citizens. Weak state institutions undermine the democratic ideals and rule of law. As Francis Fukuyama, in his book 'political order and Political decay', stated that a true democracy is possible only in the presence of strong state institutions and rule of law. Weak state institution become breeding ground for corruption and nepotism. Empirical data has shown that countries with ~~weak~~ huge inflows of foreign aid exhibit weak institutional accountability, aid and funds are diverted to politically directed groups rather than productive development outcomes. In Pakistan, during Ayub Era, large amount of foreign aid

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flows into the nation, that decade was ^{referred} ~~considered~~ as 'Decade of Development' but in true sense development was only for rich people because the funds were controlled by ^{them} ~~elites~~ ^{as per} ~~for~~ their interests while the ~~poor~~ became poorer. So, it is just to say that foreign aid weakens the state ~~own~~ machinery and makes it prone to corruption.

Foreign aid also ^{brings} ~~is~~ ^{separatist} extremism and ^{ideas} ~~militarism~~ within the recipient states.

Countries use foreign aid as a tool to create instability with nations and achieve their strategic interests. In Pakistan many of the Balochi Sardars are funded by foreign actors for supporting separatist tendencies.

Kulbushan Yadhav, a RAW agent openly confessed ~~that~~ RAW is involved in insurgencies within Balochistan. Similarly in 1971,

India provided technical and financial aid to Bangladeshi

Bangali separatist and managed to separate East ~~Pakistan~~ wing of Pakistan. Conclusively, foreign aid is a slow poison it does not show its effect immediately but

it weakens a nation through its core.

Aid is not the cure of all problems rather it is a tool whose effectiveness depends upon how it is used. In order to utilize the foreign aid effectively, there ~~are~~ ^{should be} ~~is~~ ^a strong leadership. ~~A~~ A nation can ~~only~~ avail the ^{true} benefits of foreign aid only in the presence of transparent and efficient leadership. The importance of ~~as~~ a strong leaders is evident from the case study of Singapore. Lee Kuan Yew, founder of ~~modern~~ ~~the~~ Prime Minister of Singapore, is widely regarded as founder of modern Singapore, transforming the resource poor city state into a prosperous highly developed nation with robust economy, through efficient utilisation of foreign aid.

Furthermore, foreign aid should be used for the upgradation of local industry, export expansion and infrastructure development, because ~~are~~ ^{such} only measures can reduce long-term dependence on external assistance and strengthen economic sovereignty. Aid should support a self-sustaining growth model rather than perpetuating dependency.

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Apart from that aid granting institutions should take steps towards institutional reformation.

Conditions linked with aid should focus on strengthening rule and law and local industrial upgradation rather than austerity programs.

Foreign Aid should be viewed as temporary support mechanism, not a permanent development strategy. A gradual and planned exit from aid ^{den} dependency is essential for long term growth and economic stability. Therefore recipient nations must ~~realize~~ focus on building strong state institution and ~~utilizing~~ directing aid ~~towards~~ in right direction. ^{conclusively,} ~~considering~~ Mismanaged utilization of foreign aid leads to undermines ~~economic~~ sovereignty, public trust and democratic ideas, although utilizing aid for enhancing productivity and Export expansion paves way for ~~low~~ sustainable economic development.