

When Aid Becomes Cage: The Burden of Foreign Debt

I. Introduction

Foreign aid and debt are not given as goodwill but to maintain submission or extract some benefit. They are just enough to offer the recipient country some breathing space but ~~are~~ not enough to let it develop completely. It also shortens the horizon of recipient's country rulers whose economic policy reduces to working for yet another ~~stage~~ ^{baileout}. No wonder then that aid becomes a cage and debt, a perpetual burden - with recipient countries ending up taking loan after loan.

II. The Idea of Foreign Aid and Debt in the 21st Century

III. Can Foreign Aid be Helpful and Good?

IV. Countries' Economies did not Take off Even After Taking Aid in Billions and Debt for Decades

V. Foreign Aid is a Hoax, and Debt, a Tool to Extract Submission:

(A) Foreign aid is not in interest of the recipient country, as exemplified by the U.S. aid to Pakistan to seek cooperation in War on Terror.

(B) West heavily subsidizes its agriculture, something

that costs the developing countries much more than they ever received in aid.

VI. When Foreign Aid Becomes a Cage, and Foreign Debt, a Perpetual Burden:

- (A) Foreign aid ~~hampers~~ takes away a country's right to steer its policies freely: beggars are not choosers
- (B) Foreign debt conditioned on taking specific economic measures disregard the recipient country's local conditions and administrative capacity
- (C) For the government to stay popular, politicians adopt taking ^(instant money) loans as their core economic policy instead of going for painful long-term reforms

VII. Pakistan's Present Situation and How Badly it Needs to Break Free from Debt Dependency and Unreliable Borrowed Growth

VIII. Pakistan Still has Many Opportunities to Be Economically Prosperous and Self Sufficient - Way Forward:

- (A) Start with progressive taxation - tax income from agriculture and real-estate and wealth - to have space for spending on public services.
- (B) Support IT sector due to increasing demand and quickest yields - while working on agricultural, industrial, and tourism growth

IX. Conclusion

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It sounds like the idea of a perfect world that a country needs foreign support to stave off default or to deal with some unforeseen circumstances, and another country on the map ~~is~~ is just willing to lend it a hand and help its economy catch up. Simple, no? In the 21st century, we even have institutions for this. It looks fine at the surface unless we look at the pattern and start questioning things. Why countries that sought foreign aid or loan ~~ending~~ ended up taking it again and again? Why countries even after taking loan after loan ~~and~~ ^{have not} still developed self-sufficient economies? Has it to do with the weaknesses of recipient country, the underlying agenda of the giver, or both? The fact is, in geopolitics, there is no free lunch, and states have interests, not charity goals. Even IMF wasn't formed for the purpose of helping countries strengthen their economy. Rather it was established to prevent sovereign defaults and maintain exchange-rate stability because due to interconnected nature of the world, there is going to be a spill-over effect if any country's economy collapses. Foreign aid is always given for some underlying motive and foreign debt always have strings attached. No wonder then that aid becomes a cage and debt, a perpetual burden.

Foreign aid has been in action since centuries. The idea is not new. The U.S. gave aid to the Europe to develop its economy post-World War II in the Marshall Plan. Aid was given to South Korea and many other countries. In modern times, however, along with the old notions of aid,

we have Brettonwood institutions that seem to work for the same purpose. The IMF lend money to countries facing economic turmoil so they don't default on their payments. Several other institutions like ^{the} Asian Development Bank, and the World Bank do the same. Countries like China & also give hefty amounts to other nations as part of infrastructure and other projects with entire projects acting as collateral in some cases.

Foreign aid or debt is often seen as a blessing for the recipient country. At times, it helped countries in ~~leading~~ ^{recovering after} ~~with~~ natural calamities like earthquakes. It also helped war-ravaged countries develop again. Countries like South Korea also benefitted from it. So apparently foreign aid looks ~~be~~ helpful, useful and a blessing in unfortunate times. But, it is not actually the case.

Countries whose economies took off after taking loans or debt started flourishing only after they stopped the inflows and ~~then~~ focused on developing strong institutions. These countries undertook reforms, re-distributed wealth and promoted domestic industry rather than relying on unreliable aids. It is said, "a country that cannot develop without foreign aid, can not develop with it." Studies showed that most parts of Africa were actually worse-off even after taking loans for decades. Why go far when we can see the phenomenon playing in the case of Pakistan as well. Even after taking one loan and another and receiving billions as aid from the U.S. and China and Saudi Arabia, Pakistan still has 44pc population below poverty. Nearly 40pc of kids are malnourished and stunted ^{and} girls are anaemic. The fiscal

deficit is large, exports are diminishing and unemployment, underemployment and brain drain is on the rise.

Countries fail to develop even after decades of foreign aid because ~~not~~ aids are not given as goodwill. Foreign aid almost always comes with strings attached and debt too is highly ~~is~~ conditional. For instance, in the Cold War Era, the U.S. and the USSR gave aid to countries that aligned with their economic ideologies. ~~Dollars came as~~ The number of dollars flooding the country were proportional to how ~~to~~ much it liberalized its trade and opened up its economy. ~~For twice~~, ~~Then~~ Pakistan received nearly \$10 billion in aid during the war on Terror but that was hardly an 'aid' as Pakistan paid much more in fulfilling the conditions attached to that aid.

If foreign aid were actually given as goodwill, the West would not have been adopting economic policies that harm the interests of developing countries. The West while advocating for free market principles around the world - something that makes it difficult for ~~develop~~ domestic industries of developing countries to thrive - heavily subsidises its own agriculture and protects its industries. ~~That subsidising~~ These subsidies to agriculture bars the developing and poor nations to earn via their agri exports. If protectionism and subsidies ^{even} in only agriculture ^{were} ~~cut~~ in the West, developing countries ^{might} ~~would~~ get a fair chance to ~~so~~ bridge their trade deficits and never needing loans and aids. But why would they so when they have to utilize the aid ~~Almighty dollar~~ as yet another tool to exact submission.

In fact, foreign aid is a cage for the countries who get trapped in it due to desperately needing some

relief. The aid then hampers their ability and right to steer their policies freely and constricts them in conditions that they must obey because "beggars are not choosers". Sometimes the conditions require strategic compromises, as is the case of the US aid to Pakistan; sometimes these ~~even~~ conditions are ~~even~~ economic. Even debt given by the IMF is not free from this. In 2018, as Pakistan got another IMF bailout, the US Secretary of State made it clear that "funds from IMF rollovers will not be used to pay off Chinese lenders". "We will watch", he warned because he could.

In the same way, the bailouts ~~too~~ rolled out by the IMF are highly conditional. IMF pressures the country to take measures like privatising state owned enterprises and cutting subsidies on essential services, which are not always in interest of the recipient country. The IMF overlooks the administrative capacity ~~and~~ of the country. It ~~or~~ ignores the local conditions as well. The conditionalities with IMF ~~debt~~ bailouts often result in high inflation and making it worse for the poorest ones who have the most to loose.

What's worse is, in such a country where taking loans after loans becomes a norm, politicians start seeing it as their potential saviour. Long term painful reforms are overlooked and short-term loan is pursued ~~to~~ for the government to stay popular. In the case of Pakistan, the situation is worsened by political instability. Every government has an average of 2 to 3 years to govern before it gets toppled. So politicians do everything in their power ^{and} agree ^{with} the lender's

conditions to ~~poor~~ stay popular and have the chance of getting re-elected. Their economic policies reduces to doing anything that can bring 'instant money' to give economy just some more breathing space.

It should not go like this. Presently, Pakistan is heavily indebted to domestic as well as foreign lenders. Its dependency on foreign aid and loans affects its policy choices and makes it almost impossible to stay neutral in big powers conflicts. It is also causing frustration among the general public because prices of daily-use items keep rising ^{and} living becomes unaffordable, as people need to choose between medicines or clothes. Inflation though is controlled apparently but unemployment is on rise with people leaving the country ⁱⁿ every first opportunity they get. Taxes ~~on the middle class~~ disproportionately affect the poor and middle income earners more - all while spending on health and education drops even more. It can no longer rely on the 'borrowed growth' and must take immediate steps to ~~a~~ generate revenue on its own.

Pakistan should begin with tax reforms. It is the quickest way to offer relief to the overburdened and reduce fiscal deficit. Tax should be on income and no sector should be exempt, be it agriculture or real estate. A wealth tax ~~can~~ can also be introduced to encourage investment in business ventures, that generates employment, instead of stagnant sectors and hoarding. The earned money should be invested on public services so that the lower and middle income classes have the fair chance to ~~social mobility~~ improve their lives. Meanwhile, the good ~~and helpful~~ aid giving institutions like the IMF can rather be asked

to help with Stolen Assets Recovery to recover the country's ill-gotten wealth that ~~found~~ ~~home~~ ~~is~~ is housed abroad.

In the ~~the~~ meantime, Pakistan must take steps to boost IT exports. It is because unlike agriculture and industrial sectors, the IT sector offer quick results, and has expanding market across the globe. It is not energy-intensive either, something which is an important consideration for a country already facing energy crisis. Agriculture and small-scale industries must also be developed and issues related to governance and rule of law should be addressed. Tourism is yet another path open to Pakistan to attain economic prosperity. But for any of that to happen, the security conditions and ~~political~~ struggles ~~to~~ to power must be improved.

To conclude, neither foreign aid nor debt can help a country flourish. They are too little to be meaningful and they often always comes with conditions that cost the recipient's country dearly. In want of relief, a country might enter that cage of foreign aid, only to ~~have~~ ^{find} it even more difficult to leave once it is in. Most of the countries that treaded this path found themselves trapped in perpetual debt dependency. Therefore, every country on the receiving end must do whatever it can to stand on its own and avoid rushing for immediate relief again and again. By taking the right steps and tapping on available opportunities, Pakistan can also break free from this cycle of dependency and debt burden. It is no longer a choice for Pakistan to keep pondering on how it can attain self-sufficiency because now is ~~when~~ ^{the} time it must!