

FOREIGN AID : ROAD TO STABILITY OR RECIPE FOR DISASTER.

OUTLINE:

1) INTRODUCTION:

Hook:

General Statement:

Thesis Statement: Foreign aid is not a road to stability rather a recipe for disaster as it economically cripples a nation, causes corruption and elite captures, fuels social unrest and loss of social contract, creates complex cycle of debt traps, that results in loss of strategic assets and infrastructure, ultimately hollow out national sovereignty.

2) Understanding System of Foreign Aid

3) Foreign Aid is a Recipe for Disaster

3.1. It creates austerity traps and economic contraction.

(a) Greece foreign debt crisis in 2010 caused 25% in GDP loss and 28% employment drop after bailout package.

(b) Pakistan forced to implement aggressive contractionary plan under IMF package.

causing 22% massive hike in energy tariff in 2023.

3.2. Aid causes systematic corruption and elite captures.

- (a) Haiti following 2010 earthquake came under influence of NGO and international donors
- (b) Pakistan's elite captures and corrupt system evident after Asian Development Bank and UK's investment in healthcare and education sector.

3.3. Aid packages fuel social unrest and loss of Social Contract

- (a) Jordan protest following 2018 bailout package forced the Prime Minister to Resign
- (b) Pakistan's "Electricity bill strike" after electricity and Price hike in 2023.

3.4. Creates 'debt trap's resulting in loss of strategic assets

- (a) Sri Lanka lost its Hambantota Island to China for 99 years lease
- (b) In Pakistan, high commercial loans from China creates circular debt leading to infrastructure being used as collateral.

3.5. Constant reliance on foreign donors erodes Sovereignty

(a) Egypt is considered to be under US-authoritative rule after decades of US based aid.

(b) Pakistan's billion dollar investment during War on Terror resulted in major blow back as increased Terrorism, foreign influence and humanitarian loss.

4. Anti-thesis : Foreign aid as a Road to Stability

(a) Iceland and Ireland.
as successful stories of foreign aid.

5. Recommendations.

5.1 Transit from Aid to Trade.
e.g Vietnam did. with European Union.

5.2 Increase Tax Base and introduce tax reforms e.g Georgia introduced tax reform.

5.3 Construct "debt-ceiling" laws e.g Chile government stabilized itself.

5.4 Invest in Export led industrialization and Special Economic Zones e.g China's Shenzhen village.

5.5 Robust governance, transparency and anti corruption e.g Rwanda Zero Tolerance Policy.

6. Conclusion.

ESSAY WRITING.

In 2010, Greece was a patient wheeled into the global intensive care unit, suffering from fever of debt crisis. The surgeons from International Monetary Fund and European Union arrived with bag of financial fluids, but with a deadly condition: the patient must stop eating to save on cost. While the fluids kept the heartbeating the lack of nutrition caused muscles to atrophy and organs to fail. This is the austerity trap where an operation is called successful but the patient is left paralyzed. This story repeats across the Global South where aid acts a cure for the disease of poverty, but as palliative that ensures that patient never leaves the hospital. For many recipient countries that

depend on aid for survival live in a delusion of progress and success. Foreign aid does not act as a ladder rather a "golden handcuff" that permanently shackles a nation's economic and political agency. Foreign Aid. Thus, "Foreign Aid" is not a road to stability rather a recipe for disaster. ^{as it} ~~the~~ economically cripples a nation, causes corruption and elite captures, fuel social unrest and loss of social contract, creates complex complex debt traps that results in loss of ^{strategic} assets and infrastructure that ultimately hollow out national sovereignty.

In order to understand the repercussions of foreign aid, let us first understand the origin and motive behind foreign loan. It was originally created from ashes of World War II under the "Truman Doctrine" of 1947 and "Marshall Plan" in 1948. These doctrines aimed to provide humanitarian and infrastructural development aid to the war torn Europe, plus to curtail rise of communism in the region. The systematic operation that began for humanitarian cause gradually became a core component in international relations. Countries, especially the developed nations of First World Countries negating aid as a strategic geopolitical tool to secure alliances and project

influence. This approach largely failed to build self-sustaining economies in developing nations rather leading them to a road of ~~instability~~ stability.

One of the most devastating effects of foreign aid is the austerity trap that follows it. International donors like International Monetary Fund and the World Bank, provide aid with a "Structural Adjustment Program". This program conditions recipients to mandate aggressive contractionary policies, such as slashing public ~~fun~~ spending, increasing tax, causing price hikes in an already crippled economy. While intended to balance the books, these measures often kill the very growth that is required to pay the debt. It is evident from Greece's situation, who in 2010 following a sovereign debt crisis received a bailout package from the Troika. However, the price was a decade of brutal austerities. Greece saw a 25% decline in Gross domestic Product growth and a further 22% drop in employment rate, ^{eventually} crushing the economy to a full blown humanitarian depression. Similarly, Pakistan also provides an

harrowing example; when in 2023 International Monetary Fund forced the government to implement record high interest rate which peaked to 22%, in order to meet "Prior Actions" in loan disbursement. This lead to closure of multiple manufacturing units in Faisalabad; the backbone of Pakistan's export products. Instead of stabilizing the economy, this aid-mandate costs rendered Pakistani goods uncompetitive globally, deepening the trade deficit it was supposed to fix.

Furthermore, aid acts as an "unearned rent" that works in favor of elite to avoid the hard work of governance. The distract the populous foreign capital flow, minimizing the pressure on government to tax their own wealthy citizens or elite owned agriculture and industrial sectors, leading to elite captures, tax evasions and corruption. This happened in Haiti, when ~~fore~~ foreign aid poured in after devastating 2010 earthquake. The government unable to secure the fund ultimately caused NGOs and foreigners takeover, that resulted in further corruption and ill governance structure. In Pakistan, the issues of poor governance and corruption follows as well. The Asian Development Bank and

Ahmed Kigdom provided aid to strengthen educational and health institutes. However, the funds never reached the grass root level, rather lost in foreign consultants and high-level state elites who spend the aid on their personal interest. This made Pakistan a country economically stagnant, stuck.

Moreover, foreign aid's worst repercussion is breakage of the "Social Contract" that destroys the bond of trust between state and citizen. Aid that is followed by conditions of reduced subsidies on people's resources like electricity, petrol, gas etc. and high inflation affects the poorest the hardest, causing social unrest and massive strikes that undermines state authority and authenticity. This was seen in Jordan in 2018, when International Monetary Fund's austerity demanded the government to reduce subsidies and increase tax to recover the debt payment efficiently. Resultantly, a massive social unrest broke out, worst ^{the country has} seen in over a decade that forced their Prime Minister Hani Maliki to resign. In Pakistan a mirroring situation followed after government removed electricity subsidies and levy heavy taxes on the masses. People took to street to protest, known as "Electricity bill protest". Such conditions shatters citizens

confidence in their state, believing it to be a puppet of foreign donors. Consequently, the very donation that was supposed to strengthen the government, bring it to her knees.

The worst effect that foreign aid brings upon a country is the irreversible "debt trap". A debt overhang that lingers on the nation's autonomy, policy and infrastructural growth. Mostly, countries seek foreign support for infrastructural development or economic growth, but, when a country fails to return the debt under promised time it becomes vulnerable to donors demands ^{that} eventually ~~resulting~~ results in losing strategic assets. This phenomenon took place in Sri Lanka, when the government sought Chinese aid to develop Hambantota port to boost its trade and strengthen its capital. However, the tables turned around when the domestic government failed to return the borrowed money. Thus, China took control of Hambantota Port on a 99 year lease. Chinese investment in Pakistan's Gwadar Port and other power generating facilities under ^{broader} Belt and Road initiatives faces similar criticism.

The private power production companies have to face extreme measures ^{to overcome} "circular debt" of 2.6 billion ~~by~~ ^{even paying} by.

for electricity they don't consume. Analysts fear that if Pakistan's ^{start} lags in returning the money, China might ^{start} using its strategic parts as collateral, ~~and~~ meeting similar fate as Sri Lanka. This, proves that foreign aid hinders the economic growth. The countries spend more time in debt reducing measures than do in capital generating formulas. Ultimately, leaving them in a constant debt cycle.

Of all the ~~damages~~ caused, loss of sovereignty is by far the greatest disaster caused by foreign aid. For countries that heavily rely on foreign donors, become target of foreign influence in their domestic and foreign policy approach. In order to fulfil their economic needs nations have no option but to succumb to foreign demands. This targets their internal laws, policies, public demand, ~~regional strength~~ that ultimately erodes sovereignty. Egypt is a prominent example, for decades it has been a recipient of United States aid programs. It is generally believed that Egypt's domestic ^{laws} and foreign policy approach is at discretion of Washington's interest. The country is a client state of US authoritative rule, the

helping hand has eventually ^{turned} become into a "hand over" approach for Egypt by curtailing its sovereign power. Pakistan saw a similar situation under Coalition.

Fund when US and UK plundered the country with 100 billion dollar fund, to act as a front line state in war against Terrorism. Bush's statement of "Either with us, or against us" propelled Pakistan to enter the deadliest war that ~~took~~ came with major terrorism blowback, as around 80,000 people lost their lives and around 150 billion dollar lost in economy and defence according to United Nations report. The foreign aid that was suppose to ^{turn} make the country in War hero, showed it some of the most horrifying years. Thus, foreign aid doesn't always comes with stability and rather ~~sometimes~~ it causes and progress rather bloodshed and torment.

However, according to some school of thought, foreign aid indicates progress, stability, welfare and sustainability of the economy. Especially, for the developing countries who need support to meet their needs. This has been argued, by them on the ~~successful~~ recovery of Ireland and Iceland after they seeked foreign donors to attain stability. Iceland also took a.

2.1 billion dollar loan from International Monetary Fund. and made a remarkably swift recovery. However, these are exceptions - that prove the rule. Iceland's success was predicted on robust financial institutions, a highly literate workforce, and a transparent government that had the political courage to protect its welfare model while restructuring debt. These conditions are hardly present in a developing world. In countries like Pakistan and Greece, aid fails because it is poured into a "leaky bucket" of weak institutions, systematic corruption, contractionary policies and governance decay. In such environment aid is palliative, masking symptoms of economic disease while allowing underlying infections of dependency to spread.

In order to overcome this trouble, government needs to transit from Aid to Trade. Instead of begging for loans, developing nations should demand for more market access. Securing better trade terms allow a country to earn its way out of poverty through exports rather than borrowing. ~~Vietnam~~ Vietnam, a war torn

country entered in EVFTA - European Union Vietnam Free Trade Agreement that allowed the country to increase its export base and gain economic stability without relying on foreign donation.

Secondly, governments should increase their tax base and reduce tax exemption measure from agriculture and real estate sectors. This would reduce the deficit caused by ^{not only} Taxation Gap. Georgia stabilized its economy but profited after its Tax revolution in 2004 where they introduced tax reforms and eliminated exemptions from the powerful. This step led the government generated 300% increased tax revenue.

Thirdly, a Debt-Ceiling should be introduced, constitutionally. This would stop the political leaders to borrow hefty amount for short term "show project". Eventually, leading to capital generation that is sustainable. The government of Chile, introduced these structural reforms by stopping the government from over borrowing when copper prices were high (their major export commodity). Instead, the authority should save maximum amount creating a fiscal balance in time of need. This eventually reduced dependency on

foreign donors and made Chile one of the most economically stable. return in South America.

Fourthly, nations should focus on export led. industrialization and building special economic zones to transit from foreign reliance to self sufficiency. Any remaining foreign assistance should be strictly ringed from interfering in technology transfers and infrastructure. within the special economic zones. China's Shenzhen village was a small village that used targeted investment and technology transfer to become an manufacturing hub. Thus, paving a way out for China from being foreign aid reliant in 1970's to become world's largest creditor today.

Lastly, robust governance, transparency and anti-corruption aid only becomes a recipe for disaster when it is siphoned off. An independent commission must track aid to ensure it builds public assets like dams or schools. Rwanda has been highly successful. is utilizing aid because of its 'Zero Tolerance' policy for corruption. The government is transparent and result oriented, leading it utilizes investments to build robust healthcare system, information technology infrastructure. eventually reducing its aid-to-GDP ratio.

Conclusively, foreign aids ~~are~~ result in instability, economic stagnation, loss of public trust. It gives the corrupt more leverage over weak system, ~~erodes~~ allows foreign domination in domestic affairs, eroding the sovereignty principle a state sets its definition on. From the shuttered factories of Faisalabad to leased port of Sri Lanka, the recipe for ~~global disaster~~ disaster remains same across the globe. It is understandable now, that true stability does not found in waiting rooms of international aid systems, but ~~from~~ in self-reliant, efficient, transparent government ~~social~~ institution that prioritize growth and independence. By letting go of the golden handcuffs, nations like Palestine, Greece, Haiti and other debt ridden ~~countries~~ can pave a road to stability.