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Foreign Aid: Road to Stability or Recipe for Disaster?

I. Introduction

a) General statement

b) Thesis statement

II. Overview of foreign Aid Practice

a) What is foreign Aid?

b) Institutions Involved in Foreign Aid.

III. Why Foreign Aid Is a Recipe for Disaster:

a) Aid Creates Dependency

Reference: Dambisa Moyo critiques the effectiveness of foreign Aid in Africa.

b) Aid Distorts National Priorities

Reference: Pakistan's post 9/11 aid prioritized security over health and education.

c) Strengthens Authoritarian Regimes

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Reference: Cold war aid sustained dictatorships in Latin America and Africa.

d) Undermines Local Institutions

Reference: Food Relif (in 2022 Floods) largely handled by NGOs.

e) Aid Encourages Brain Drain

Reference: Economic Instability induced by foreign aid pushed over 832,000 Pakistanis out of the country.

f) Fails to Reduce Poverty

Reference: kenyans are dying of AIDS as a result of debt trap created by IMF Loans.

g) Aid Weakens the Tax Institutions

Reference: Pakistan's tax-to-GDP ratio remains 9-10% - among the lowest globally.

IV. Case Studies: Foreig Aid as a Road to Disaster

a) Pakistan's Aid Dependency without

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Development

b) Afghanistan's state collapse after aid withdrawal (2021)

c) Somalia state failure evident by OECD Fragile States Report.

V. Conclusion.

The Essay

The economic stability of a nation dictates its political power and global prominence in a world that is changing quickly. The loopholes in economic structure create a room for state collapse. Countries that rely on foreign aids without building their own domestic institutions and revenue-generating channels experience a pardox: more aid, weaker states. Foreign aid has long been presented as a moral obligation of wealthy nations toward poorer states, promising stability, growth, and humanitarian relief. However, it is evident that instead of fostering institutional strength of recipient country, prolonged aid dependence has weakened governance structures and give rise to corruption. Foreign aid works opposite to state objectives. The detrimental social, economic, and political effect of bailouts on countries, making them one of the most impacting surefire recipes for disaster. Economically, these aids, keep

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the country mired in a cycle of dependency. Politically, these bailouts undermine a country's sovereignty. Socially, these bailouts cut nations' all social welfare spending. Therefore, in many developing countries, foreign aid has functioned less as a catalyst for development and more as a recipe for disaster and economic stagnation.

Foreign aid refers to technical, financial, or humanitarian assistance provided by one country or international organization to another, typically to promote development, reduce poverty, or respond to crises. Foreign aid may take in the form of grants, military assistance, concessional loans, or budgetary support.

Foreign aid is delievered through a complex network. Institutions involved in the process of foreign aid are Ministry of Finance, State/Central Bank, Planning Commission, and Provincial Governments - at local level. Multilateral International Institutions pool resources from multiple countries and provide aid mainly for stabilization and development. World Bank

Group, International Monetary Fund, United Nation Agencies, Regional Development Banks, Bilateral Donor Agencies, Humanitarian and Emergency Aid Institutions, Financial and Policy Coordination forums, and NGOs are some instances under the umbrella of donor institutions.

Foreign aid is a recipe for disaster, as demonstrated by the following arguments:

Dependency theory explains how the global economic system benefits developed nations at the expense of developing ones. On the name of foreign aid, developed countries help developing countries to cope with temporary economic financial instability or climate-related disasters. In return, they seek to utilize poor countries' natural resources and markets. **Dambisa Moyo** in her book Dead Aid elaborated, this cycle effectively turns aid and loans into instruments of neo-colonial control, where funds intended for development are

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ultimately used to exploit the recipient through policy influence, repayment obligations, and strategic dependency. Pakistan's repeated recourse to IMF financing - 23 programs since 1958 - exemplifies how external loans instead of ensuring stability, have perpetuated economic vulnerability, policy conditionality, and weakened governance. Other than state matters, in our domestic lives, excessive dependency on others for daily needs breeds vulnerability when circumstances change. So, at country level, where millions of lives are concerned, foreign aid, if unchecked, can create cycles of vulnerability and control.

Foreign aids come with requirements such as structural reforms and austerity measures that challenge long-term favorability for recipient countries. For instance, IMF 2025 loan to Pakistan, the funding typically comes with strict economic reform conditions. No doubt, these measures aim to stabilise finances, improve competitiveness, and reduce fiscal imbalances but they can force

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governments to prioritise market-oriented restructuring over social spending. That is why Dambisa DMoyo stated:

> "Aid has been an unmitigated political, economic, and humanitarian disaster."

Afer 9/11 attack, Pakistan become heavily dependedent on foreign aids and in return Pakistan's foreign policy as well as national prioritise changed. Pakistan spent more on health security and ignored education and health sector, evidently. Over **$20 billion** in total aid since FY2002, about **72%** was security related, while only about **23%** went to economic and civilian assistance. Education departments received tiny amount, equating to roughly **$64 million per year** for millions of people – roughly $1-$2 per child annually.

Authoritarian regimes flourish under the influence of foreign bailouts. In 2019, 79% of official development assistance

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(ODA) went to authoritarian states and no accountability of funding distribution was recorded. **Modernization Theory** was developed after cold war era, posits that economic development leads to democratization. However, the experiences of Latin America and Africa challenge this assumption. For example, in Africa, large inflows of aid often strengthened state coffers, allowing leaders to suppress the civilians. While in Latin America, foreign aid and economic support somtimes reinforced military governments under the guise of stability. **W. H. Auden's** short poem "Epitaph on a Tyrant" symbolically reflects how foreign aid or external intervention reinforces authoritarian regimes.

Perfection, of a kind, was what he was after,
And the poetry he invented was easy to understand;
He knew human folly like the back of his hand,
And was greatly interested in armies and fleets

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Local Institutions are the backbone of democratic structure. They work at the very basic level with civilians and people of the country to provide one-to-one assisstance. Due to foreign aids, external or international organizations enter into country's territory and work like local organizations. Sometimes, they collaborate with local body of government or organize humanitarian programs on their own. In this way, they replace local institutions of the respective country. They create parallel structures, reduce local autonomy, and enforce external priorities that undermine long-term gover-nance capacity of the state. For instance, during 2022 flood relief programmes, NGOs and international funding over-shadowed the role of local government during crisis management, according to 2023 UNDP report. The inaugration of Ivy League colleges in Pakistan largely affect local colleges and universities that prioritize research favored by large donors over their traditional

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academic goals - when money talks, institutions often listen - sometimes at the expense of their original mission.

Brain drain is a major burning problem for developing nations like Pakistan - where significant youth bulge exists and young people leave country due to economic constraints. In Pakistan, 832,000 young or skilled workers left Pakistan for employment. Foreign aid is largely associated with the migration of the more educated persons. Specifically, a 1% of GDP increase in aid induces a 7% increase in skilled emigration. Foreign aid, especially when it comes as financial support, technical assistance, or development projects, often improves infrastructure, education, and income-levels. It paradoxically makes it easier for skilled workers to migrate. Brain Drain is one of the factors within the **Aid Curse Hypothesis.** It argues that aid inflow can create dependency and distort national priorities. One of its key manifestations is brain drain — that undermines domestic capacity of the country. Hence, foreign aid is not a viable solution for many developing countries. World Bank also stated in 1998 that:

> Aid works only in good policy environments — which most fragile states lack.

IMF bailouts are one of the reasons why inflation in Pakistan has hit a 48-year high in recent years. Pakistan is a developing country, its poverty rate reported as 39.8% — 44.7%. As of 2025, approximately 45% of Pakistan's population is living under poverty. Foreign aids, as explained earlier, disturbs national priorities and undermines local institutions. State of the government think nothing but how to repay the loan to donor countries. Adding fuel to fire, the strict regulations and reforms come along with the bailouts largely affects the domestic policies of the country.

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Policies are the source to implement the plans. For example, when IMF reforms for Pakistan forces government to focus on market-oriented fiscal policies, it breeds the wave of interest shift. Every country has different socio-economic problems that are soluable through policy making and policy implementation. But the "debt trap" of foreign aid does not allow the government to consider poverty as a national problem - that needs emergency elimination.

Case studies of countries where heavy reliance on foreign aid led to political, economic, or institutional disaster.

Pakistan, since 1950s, has utilized over USD 130 billion external aid from IMF and other. Moreover, since 1958, Pakistan has received approximately 24 IMF programs for development and stabilization. These recurrent bailouts weakened the domestic revenue institutions like FBR, IMF conditionalities caused

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policy instability and reform fatigue. The outcome of aid dependency without reforms is Pakistan's weak-governance, elite capture, and persistent IMF dependency. The other case in point is Afghanistan - that received over USD 145 billion (2001-2021), mostly from US and allies. In result, aid led to a recipe for disaster, created a **rentier state** that is disconnected from citizens. In 2021, US aid withdrawal caused immediate state collapse. Some international institutions aid countries with no central authority like Somalia. In Somalia, aid strengthened warlords and militas, where there was no taxation and hence no accountability.

In conclusion, foreign aid is a double-edged sword that works for the betterment of country temporarily as well as a recipe for destruction or distaster. For developing countries, foreign bailouts are helpful for short-run,

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but it is evident that they destroy governance in the long run. Foreign aid in countries like Pakistan, Venezuela, Tanzania, Africa, Somalia has proved to be a disaster. It undermines government potential to grow in crisis situation. It disturbs national priorities, policy reforms, local institutions, and fiscal discipline of the country. To cope with drawbacks of foreign aid, developing countries need to realize the side-effects foreign aid has on their governments. If pursue these aid uncheked, governments can collapse and structure of government would not be able to stand firm even if little change in circumstances happen.