

ESSAY

FOREIGN AID : ROAD TO STABILITY OR RECIPE FOR DISASTER ?

OUTLINE

1. Introduction.
 - Hook: What receives as a lifeline, can turn into shackles.
 - Thesis statement: Foreign aid can be a road to stability if utilized efficiently.
2. How foreign aid affects a country.
3. Foreign aid is a road to stability.
 - a. Ethiopia restructuring
(under G20)
 - b. Increase in tax net
of Pakistan
 - c. Sri Lanka default recovery
2022.

- d. Argentina loan cycles since 2001.
4. Foreign aid can also be a disaster.
 - a. Balance of payment crisis (liberal economy)
 - b. Debt Trap
 - c. Threat to economic sovereignty
 - d. Dependency Syndrome.
5. How countries have recovered through foreign aid and achieved stability.
 - a. Case study - Malaysia
 - b. Case study - South Korea
 - c. Case study - Rwanda
Genocide
6. Way forward to turn foreign aid into a pathway of stability
7. Conclusion.

|| "What receives as a lifeline
can turn into shackles"

The quote reflects the idea that foreign aid that upholds the trembling economy can turn into disaster instead of stability. There are numerous examples that shows that foreign aid have helped to recover from a defaulting economy. Whereas, there are certain factors that shows that foreign aid have led to the menace like, economic sovereignty threat, balance of payment crisis, and debt trap. Similarly, a vicious cycle of dependency has been observed between the foreign aid provider and receiver. Often, the countries that attain foreign aid falls into the

dependency syndrome and debt trap. However, foreign aid can be a road to stability if the aid is utilized efficiently. There are several case studies that are evidence that foreign aid have helped them to attain sustainability and prosperity. The key difference lies between the countries that recovered from foreign aid and that have turned into a fragile economy is mainly the management of that foreign aid. If it is managed and utilized effectively then foreign aid can be a road to stability. In the twenty-first century and the presence of financial institutionalism, countries can prosper under certain productive

measures.

The foreign aid affects a countries in numerous ways. Since, it shapes the economy, it also influence the socio-economic fabric of the country. The foreign aid providers i.e. International financial institutions and countries provides the financial to the countries which have fragile economy. The financial institutional includes International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB) etc. The countries that often provides war are Gulf Countries, China, United States etc. The critiques argue that these institutions often set some terms and conditions that are prerequisite to adopt in order to get

that aid. These terms and conditions hinder the certain economic aspects. On the contrary, some argue that these terms are a pathway to make ~~an~~ a sustainable economy and achieve long-term stability.

The civil war in Ethiopia i.e. Tigary war had led the Ethiopia's economy into shackles. Besides that the climate shocks and the covid-19 pandemic had further worsening the situation. In the context of these menace, Ethiopia had to look for an aid provider in order to prevent its economy getting default. Therefore, Ethiopia approached IMF for its financial recovery aid and later, the G20 countries. The G20 countries

have given the structural reform to adopt. In this way, Ethiopia's economy will be restructured and attain the long-term stability. Thus, the foreign aid had prevented Ethiopia from getting default, instead the foreign aid providers have also suggested the pathways to achieve the stability.

Pakistan has also achieved its historic economic growth due to reforms suggested by international financial institution i.e. IMF. Pakistan has collected Rs. 18.9 Trillion tax in the fiscal year 2025. IMF had targetted to collect Rs. 200 billion increase every year. The IMF also suggested the economic reforms that have led to increase in tax net. Being

an informal economy, Pakistan has been on the pathway of economic stability despite the social challenges. Moreover, the IMF also suggests to revise the contracts with IPPs to further stabilize the economy and increasing Purchase Power Parity. This reflects that foreign aid have significant positive impact on the economy of Pakistan which has now on the path of prosperity.

The Sri Lanka had gone default in 2022. The civil revolt and the ousting of the Government had further worsen the already tumbling economy of Sri Lanka. To address the economic default, the Government of Sri Lanka decided to approach internation

financial institution. Thus, Sri Lanka acquired financial recovery aid from IMF to improve its defaulting economy. IMF provided financial assistance along with the strategies to stabilize the economy. Currently, the Sri Lanka's GDP is growing, inflation is decreasing and an increase in foreign reserves has also been seen since 2022. In the pace, of three years, Sri Lanka is now on the path of stability and prosperity due to the financial aid from during the 2022 default. If the Sri Lanka would not have approached IMF, it could have gone default.

Argentina had also faced the defaulting economy in 2001. Since then, Argentina has been taking loan cycles to improve

its economy. The global pandemic repercussions had led to hyperinflation in Argentina. In the recent year, Argentina had received foreign aid in order to execute elections in the country. Thus, it can be observed the Argentina's economy is highly operating highly upon the foreign assistance. It can be said that Argentina's economy is surviving or may achieve stability under the financial aid from the foreign institutions.

There are certain antidotes to this stance that foreign aid is a road to stability. Few concerns are observed that are fostered by the foreign aid. In this manner, the foreign aid is

considered disaster instead of road to stability.

The foreign aid leads to balance of payment crisis. As the international financial institutions demand i.e. IMF, WB demands the country to adopt liberal economy. The liberal economy refers to the open trade system without balancing the imports and exports. In the developing and under developed countries, the liberal economy creates crisis of balance of payment in the economy. Since these countries are mostly the raw producing countries so they export the raw material. These countries import the finished goods which are higher in cost than the raw material. Thus, this disrupt

flow of money i.e. imports and exports. The imports grow more than exports creating a balance of payment crisis.

The debt servicing on the provided loan from the financial institutions leads the economies into the vicious cycle of debt trap. The countries has to acquire more loan in order to fulfill the debt servicing annually from their economy. In the case of Pakistan, it pays 30/40% of their total tax collection into the debt servicing. Further, to meet the annual expenditure, Pakistan has to acquire more loan because of its major economic chunk has given under the debt servicing. In broader context, to pay the debt servicing

payment, the countries has to acquire more loan in this regard. Thus, this creates a cycle of debt trap. This idea reflects that foreign financial assistance often leads to disastrous economic conditions.

The financial institutions often set certain terms and conditions in exchange of providing financial aid. These conditions undermines the economic sovereignty of the country. For instance, the institutions demands to adopt liberal economy, privatization, end to subsidy programs. These reforms hinders the economic stability, purchase power parity and social welfare fabric of the country. In this way, it is argued that western-centric economic ideas undermines

Socio-economic stability in the third-world countries. Besides that, the foreign assistance program - Marshal Plan was perhaps to counter the Soviet-led economic ideology during cold war. This also shows that foreign aid can also be used as a tool to gain political benefit at a certain context. Thus, foreign aid can also be a disaster that leads to economic insecurity.

The dependency syndrome was defined by Raul Prebisch. He argues that the world is divided into two domains i.e. North and South into core and periphery countries respectively. The core countries possess low labor and high return aspect. Whereas, the periphery countries have high labor and low return.

factors. The core countries makes the periphery countries dependant upon them which leads to

"economic dependency syndrome". In addition to it, the concept of imperialism also lies in the economic dependency concept. The financial institutions often ~~leads~~^{impose} to economic imperialism on the dependant countries. This economic imperialism is the modern form of colonialism perceived by many economy analysts. In this way, these both dependency concepts undermines the economic sovereignty of a country and would eventually lead to disastrous situation.

There are certain countries that showed that the foreign aid have helped them to recover from a disastrous economic crisis. The crisis like

Asian Financial Crisis 2007 and the menace like Genocide has also been overcome through the foreign aid. Currently, those countries are prosperous at an outstanding level on global arena.

Malaysia approached IMF and ADB to get recovered from the downfall economic downfall possed by the Asian Financial Crisis in 2007. The regional organization ASEAN also helped in this regard. But, the primary matter of discussion is that, this Malaysia have utilized the foreign ~~as~~ financial assistance efficiently without falling into the debt trap or undermining the economic sovereignty. Currently, Malaysia is considered into the one of the developed country, having

economic stability and social prosperity. This shows that every foreign assistance is not a matter of dependency or economic imperialism, it drastically depends upon the country's policy and social stability.

South Korea had also undergone economic crisis in 1997. South Korea, to meet its economic needs approached IMF for the financial assistance.

After a period of financial assistance, the country gained the economic stability. Currently, South Korea, is well-known for its technology, entertainment and cultural sector. Under the economic institutionalism and globalization, South Korea showed that the foreign aid is a pathway to stability rather the

economic crisis. Additionally, this also shows that the traditional concepts of imperialism and economic sovereignty has been transformed into collective and adaptive soft form of economic sovereignty concept.

Thus, this shows that South Korea had recovered its financial crisis and achieved stability through foreign aid and financial assistance.

In the "Post-Genocide" crisis in Rwanda had left it in the tumbling economy and tarnished social conditions. Rwanda has also recovered its the genocide trauma through foreign aid. The western countries i.e. US, Germany and Japan had given aid to maintain healthcare, education, social welfare and rebuilding

infrastructure. The United Nations had also helped Rwanda to conduct elections into the country for a democratic and legitimate Government. In this way, Rwanda recovered from the tragic genocide. Currently, Rwanda has 60% women in Parliament through free and fair elections. Besides that, Rwanda has been undergoing consistent growth in GDP, particularly in service sector. This shows that, through effective utilizing foreign aid, the country can run on the track of stability.

The key difference between the countries which fell into the aid trap and the countries which grew drastically is the internal factor. The mishandling of funds, corruption and ~~extra~~ beyond adequate expenditure can be a factor.

due to which foreign aid works as a recipe to disaster. The inconsistent policies will lead to mishandling of funds due to which the objective could not be achieved.

In this manner, the foreign aid would not result into the pathway of stability; instead it will bring economic and social disaster in the respective country.

In conclusion, the foreign aid can be a pathway to stability if it is managed or utilized in a proper manner.

As said by the former United States representative, Kay Granger, "Foreign aid must be viewed as an investment, not an expense, but when foreign aid is carefully guided and

targetted at a specific issue, it can and must be effective."

This view of Kay Granger reflects that foreign aid is not a recipe for disaster by nature. The problem lies in the effective and appropriate utilization of it. The proverb, "the mines can also be minimal if the use of it is taken for granted". Thus, this shows that the foreign aid cannot either bring stability or bring disaster. The core lies in the management of it. However, foreign aid is by objective meant to bring stability which is evident throughout the history in numerous countries.