

Foreign Aid: Road to Stability or Recipe for disaster

Outline:

1) Introduction:

Thesis Statement: Foreign aid is a way to acquire stability, but at the same time it proves disastrous for country's prosperity. It is disastrous as it makes country entirely dependent on foreign aid, and such countries cannot achieve real progress. For real progress dependency on foreign aid should be minimized.

2) Foreign aid is not a sustainable way to gain stability, rather it is disastrous pitfall.

3) Foreign aid is a recipe for disaster to country's real development in the long term (Thesis)

a) A way to destabilize country's economic development by imposing IMF approved economic policies.

b) Unstable foreign reserves despite seeking for multiple episodes of foreign aid.

c) Poor condition of public infrastructures like schools and hospital along with meager maintenance priorities.

Date: _____

Day: _____

- d) Lack of strong will to invest in the environmental initiatives to cope^{up} with increasing climatic threats
- e) The circular debt in power sector goes up every year despite seeking foreign aid
- 4) At the same time foreign aid is a road to stability of a country if utilized properly. (Anti-thesis)
 - a) Foreign aid is a way / tangible way to stabilize country's economic policies
 - b) Helping in the stabilization of country's foreign reserves, which balances the trade deficits by enhancing imports
 - c) Ensuring more investments to be done in public infrastructure not only maintaining existing schools and hospitals but by building new ones
 - d) Only will, initiatives and ^{environmental} policies are not sufficient until we have funds to translate them into tangible environmental development
 - e) Although ~~fore~~ circular debt is not finished completely, yet foreign aid provide economic breathing space

Date: _____

Day: _____

s) Sole dependence on foreign aid for stability of country is no more than a quixotic project (Synthesis)

a) Export oriented economic policies should be implemented that are independent of the need to gain foreign aid

b) Foreign reserves can be better managed through maintaining / creating a balance in trade deficit

c) Tax collected from public should be invested in public infrastructures like schools and hospitals rather depending on foreign aid

d) Instigation of genuine concerns about environmental safety is more important for coping up with environmental challenges

e) Minimization of circular debt in power sector is possible to shift from imported coal based electricity production to indigenous hydropower resources

g) Conclusion

Date: _____

Day: _____

Marshall plan has rebuilt Europe, the world has viewed aid as a tool for stability and peace after the world War II. But in the 21st century that plan is showing dangerous consequences. Similar is the case for Pakistan. in specific and the world in general. Proved from history foreign aid is able to give only a breathing space, but not make a country stable one in long term. Nations seeking for foreign aid, have to agree on terms and conditions of donor country. They (such countries) lose the power of independent decision making in long term. Although foreign aid is a way to acquire stability, but it proves disastrous for country's prosperity. It is disastrous, as it makes countries entirely dependent foreign aid. Resultingly such countries cannot achieve real progress. For real progress dependency on foreign aid be minimized through utilization of indigenous resources. Foreign aid is a recipe for disaster to country's real development in the long run. Because it destabilizes countries economic development, unstable foreign reserves and poor condition of public infrastructure. Circular debt in power sector is also de-stabilizing the country.

(2)

Date: _____

Day: _____

But on the other hand foreign aid is a road to stability of a country if it is utilized properly. It is used to stabilize country's economy in short time, helps to stabilize country's foreign reserves, enhances public infrastructure building investments. Moreover, it enhances tangible environmental development and provide support for paying circular debt. Merely depending on foreign aid for stability of country is no more than a quixotic project. As export enhancement should be focussed rather than loan seeking. Foreign reserves are maintained through minimizing trade deficit and for reducing dependency on foreign aid tax collection has enhanced. And most importantly circular debt is minimized through by reducing coal imports and utilizing hydropower energy for electricity generation.

Foreign aid is finance that a donor country grants to a recipient country. Foreign aid is mainly given to low economically performing countries. Its purpose is to restore countries economic activities and making it self reliant. But with time the country got trapped in the vicious cycle of foreign aid loans. But few countries uses aid

Date: _____

Day: _____

to gain stability, but latter attracted private investments which is essential for sustainable growth. Many countries of the world, despite having heavy dependence on foreign aid now managed to get out of aid trap. One of the prominent example is South Korea. In the aftermath of Korean war, South Korea was utterly devastated and is one of the largest recipients of U.S foreign aid in the world. It depend on US for its food, infrastructure and military security. But South Korean govt adopted a strategy to get out of it by focussing on export-led industrialization. It use aid to stabilize economy and invested heavily in education, infrastructure and industries. Resultantly South Korea's "Miracle on the Han River" transforms into global economic powerhouse. The current GDP of South Korea is \$1.9 Trillion which is a tremendous increase in economic size in over a period of 60 years. (IMF, World Economic Outlook, 2025)

Foreign aid destabilize countries economic development by imposing IMF approved economic policies. Mostly countries dependent on financial loan granting institutions have

Date: _____

Day: _____

no free will to implement economic policies. Resultingly they have to implement IMF approved economic policies. Countries seeking for loans stabilizing their economies have to obey IMF conditionalities like privatization of state owned enterprises, market-oriented reforms and monetary policy changes. Due to such policies in most cases inflation rises and there is wide spread job losses resultingly enhancing unemployment. The long term consequences of such policies are even more dangerous. Such countries also suffer from economic collapse. Countries face high level of debt that goes up and further loans are not enough to sustained economic recovery in short term. **For example**, After 1991 IMF urged Argentina to sell off state owned companies in key sectors like telecommunication, energy and transport. Privatization lead to job losses and greater income inequalities. So, this showed that IMF oriented economic policies destabilizes country's economic development.

Foreign reserves are declining steadily despite countries are seeking for ~~for~~ multiple episodes of IMF loans. Foreign loans are

Date: _____

Day: _____

to the little extent as a mean to stabilize the foreign reserves but not so in long terms. Stability of foreign reserves is not dependant on loan seeking. It is a way to acquire temporary stability for country's economy but in future it will not help country to sustain economic activities. Such loans temporarily help countries to pay for imports and also to pay for debt. The foreign reserves of Pakistan declined to critically low levels. The gross foreign exchange reserves decline to more than half from \$9.8 billion at the end of FY 2022 to \$4.4 billion a year later. (Asian Development Outlook, 2024). In this way, despite inflow of foreign aid the foreign reserves are fluctuating.

Despite having inflows of foreign aid the condition of public infrastructure is not good in many countries. The foreign reserves are not guaranteed to be a source that improve country public infrastructure. The condition of public infrastructure is not good in Pakistan. And the existing structures are not given due consideration. There is no maintenance of

(3)

Date: _____

Day: _____

Such institutions, and resulting it shows poor development of that region on health and education sector. For example Human Development Index of Pakistan is very low i.e. 168 out of 193 countries (United Nation Development program, 2025 report). Pakistan is the country that stands out distinctly in South Asia for the frequency of its IMF engagements. Yet human development index among south asian countries is lowest for Pakistan. Hence, poor conditions of public infrastructures not get better through only loan or grants.

Besides poor public infrastructure, many countries lack strong will to invest to take appropriate environmental initiatives. It shows that merely having finance in the form of foreign loans is not sufficient for the betterment in environmental related climatic and to deal with climate change. The environmental stability of the country is not linked with the financial aid from donor countries. It totally depend upon the intent of authorities, their policies and priorities. Recipient countries most of the time compromise

Date: _____

Day: _____

their environmental sustainability over minor economic gains. Same is the case of Democratic Republic of Congo (DRC). The state's primary interest is in extracting minerals and timber wealth for political patronage, but not for conservation. Although DRC receives substantial humanitarian and development aid, but is unable to do environmental conservation due to lack of effective implementation. So, lack of will to invest in environmental initiatives, makes country vulnerable to climatic threats.

In addition to inefficiency in taking environmental initiatives, circular debt in power sector is increasing every year. Because countries receiving foreign aid have to pay back certain amount within a specific time duration. The circular debt trap in the presence of foreign aid ~~is~~ is difficult to overcome. The dependence of power sector in many countries of the world are on imported fuels that are used with their power sector for generation of electricity. It is ongoing process as if industries are stopped from working the ^{no} economics of

Date: _____

Day: _____

Countries collapse. Similar happens to Zambia's power sector, as it requires foreign loans to expand generation capacity and build new transmission lines amid recurring droughts. When Zambia's currency Kwacha experiences severe depreciation it leads to its default in 2020. This showing how despite having foreign aid, circular debt becomes cause of instability.

Contrary to that foreign aid is a road to stability for a country if foreign aid is utilized as a mean to an end rather than end itself.

Foreign aid is a tangible tool for stabilizing country's economy, but only when paired with sound macro-economic policies and structural reforms. Because foreign aid has the capability to help countries to stand on their feet temporarily. Effective economic policies when coupled with incoming foreign aid helps country to survive. Countries which depend on foreign aid only to gain temporary stability, while working more on strengthening the macroeconomic indicators, are successful while those

Date: _____

Day: _____

Countries depending totally on foreign aid ~~are~~ collapsed. Foreign aid in the form of Foreign Direct Investment help to stabilize country's economy as it involves no repayment. As it is evident from Foreign Direct investment inflows in Pakistan that are increased by 8.1 percent to \$ 1.5 billion ^{in 2024} to \$ 1.3 billion in 2023 (Economic Survey of Pakistan FY 2023-2024). In this way foreign aid stabilizes country's economics.

Besides stabilizing country's economic policies foreign aid restore country's foreign reserves. Foreign reserves play important role in country's trade, and this ensures prosperity of country. When countries trade imbalance creates more ^{imports} ~~exports~~ and less ~~ex~~ports trade deficit crisis. This causes foreign reserves to decline due to declining ~~exports~~ of the country. In such condition foreign reserves play role in stabilizing foreign currency in reserves especially in the time of crisis. Also, foreign aid fills the foreign exchange gap, thereby enabling imports and stabilizing the external sector. An Economist William Easterly

(4)

Date: _____

Day: _____

in his book "The Elusive Quest for Growth (2001)", said that / acknowledged that aid provides short-term balance of payments support and it stabilizes reserves especially in times of crisis. This shows that foreign aid stabilizes foreign reserves and trade deficits.

Not only economic and trade balance foreign aid is very important in translating environmental policies into reality. What is the maximum effort a country can do at time of environmental disasters. During the period of economic destabilization, if a country suffers from environmental crisis, only policies will do nothing. To deal with such crisis, a country needs foreign aid. Developing countries mostly suffer from such situation where they are unable to fulfill daily needs. Such countries have very difficulty in managing environmental shocks without foreign aid. That's why World Bank devised 'CARE project' that funds public domain platforms and includes \$36 million grant from International Development Association for dealing with climate risks (World Bank Report 2021).

Climate
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for South
Asia

Date: _____

Day: _____

In this way foreign aid play significant role in dealing with environmental crisis.

Apart from role of foreign aid in dealing with environmental crisis, it also play effective role in building public infrastrue of the country in vulnerable countries.

During crisis periods govt lack finance to spend in the construction of public sectors like schools and hospitals. Investment in the form of foreign aid in public sector building is inevitable. Poor countries don't have enough resources. As a result they don't spend enough finance in building infrastructures. It is the foreign aid which helps such economically poor countries to invest in their public infrastructures. Foreign aid is not merely supplementary but foundational to public infrastructures in several countries. For example in fragile post-conflict states like Afghanistan and Liberia, aid constituted the primary source for rebuilding the skeleton of state. In disaster prone countries like Nepal aid provides financing. In this

Date: _____

Day: _____

way foreign aid helps in building public infrastructures.

Besides developing public infrastructures, foreign aid is very helpful to countries struggling to circular debt crisis. Foreign aid help to repay and manage the crisis of balance of payments to countries struggling with financial crisis. It is not a complete solution to get out of circular debt vicious cycle but provides a temporary relief, until country finds new means of finance to pay back. Mostly donor institutions emphasized countries to pay for circular debts. Because circular debt causes hindrance and investments in other sectors particularly industrial sectors. For example Ghana while requesting for extended facility fund in 2023 from IMF. That report clearly mentioned that Ghana clear energy sector circular debt as a part of IMF supported programme. In this way foreign aid helps countries in repaying / getting out of circular debt trap.

Date: _____

Day: _____

But solely depending on foreign aid for stability of a country is no more than quixotic projects.

The economic policies of the countries are export oriented, rather than merely depend on foreign aid for betterment of economy. Economy of countries boost when they enhance their exports and reduce imports. Economic policies of countries are designed in a way that reduce dependence on foreign aid for inflow of finance. Depending on foreign aid alone for running economy in the long run is unsustainable. Economic rebuilding does not require foreign aid. Instead by making robust policies and ^{their} effective implementation brings economic stability in countries.

As said by Daron and James in their book "Why Nations Fail" (2012), countries rebuild independantly not through aid, but by undergoing institutional transitions towards inclusiveness. Hence, formulating economic policies independant of foreign aid is inevitable.

Besides enhancing exports for foreign gain, foreign reserves are better managed by overcoming trade deficits. There exists critical balance in import vs exports of

(5)

Date: _____

Day: _____

of a country Exporting less and Importing more creates a trade deficit. For balancing it most countries are seeking for foreign loans that will stabilize foreign reserves for time being / short duration. It helps to address the issue in short term but for long term achievement of trade balance, work on exports be increased. Trade balance is very important for maintaining foreign reserves. From the comparative analysis of Economic Survey of Pakistan for FY 2023-24 and FY 2024-25, it is evident that by reduction in imports trade deficit (US\$ 17.7 billion) for FY-2023-24 was lower than FY 2024-25 which is US\$ 21.3 billion, due to greater imports latter year. This shows how trade deficit be maintained by lowering imports.

As trade deficit is balanced by lowering imports, taxes collected from public are to be invested for building public infrastructures, rather depending on foreign aid. Public infrastructures are built from the public taxes. Taxes are collected from common masses and their proper utilization is for building those infrastructures that are for public. Most of the time

Date: _____

Day: _____

adequate foreign aids are not received to properly utilized for such purposes. Taxes collected from public are enough to invest in this domain. Many countries of the world are effectively utilizing taxes in key infrastructures development. Countries like Singapore, Rawand and Scandinavia are properly utilizing taxes in building infrastructures like health clinics, ~~research~~ universities, world class airport, urban master plan etc, by not depending on foreign aid. In this way taxes are effectively utilized for building infrastructures, ~~despite~~^{by} not depending on foreign aid.

While building infrastructures, environmental protection is also given top priority, for that a strong will is necessary for environmental policies implementation rather than relying on foreign aid. Many regions of the world are facing environmental deterioration. Despite the fact they have plenty of ~~to~~ finance. Environmental policies implementation requires strong will to take actions. This is done by activating the youth to participate in environmental initiatives and also by involving

Date: _____

Day: _____

the local communities. For example most famous "Chipko movement" reflects the strong will of people. Local community by clinging to trees prevent the authorities from cutting down the forest thus preserving and protecting the ecosystem. In this way it is strong will of people not that finance that protect the environment.

Environmental protection is further ensured when countries shift from coal-based energy production to hydro-power energy generation, which ultimately reduces circular debt of countries. This step will end countries dependency on foreign aid. It ensure reliable domestic generation base. Gradually it enable countries to minimize their energy-based imports instead ^{they} utilize indigenous resources for this purpose. Foreign aid cannot solve the circular debt issue completely. Countries which are depending on foreign aid to come out of circular debt are unsuccessful. But many countries by shifting to indigenous resources of electricity production are successful to cope up with this issue. For example Nepal shifts to hydropower electricity generation from

Date: _____

Day: _____

coal based. It drastically reduces the need to purchase expensive, volatile coal based power. And somewhat able to manage circular debt by controlling the major cash outflow in this regard. In this way by controlling the imported energy production issue of circular debt can be resolved.

Conclusively, one may say that, foreign aid is both a way to get stability, but at the same time if not utilized wisely it becomes a debt trap and a recipe for disaster to a country. Mostly foreign aids are mismanaged by countries. Mostly they destabilize country's economic development, resultingly foreign reserves declined. Such countries are unable to invest in public infrastructures. Also they suffer from environmental degradation and issues of circular debt. On contrary foreign aid is road to stability if a country depend on it to gain economic stability rather than entirely depending on it to bring economic prosperity. At the time of crisis foreign aid stabilizes country's economy.

(6)

Date: _____

Day: _____

Stabilizes foreign reserves, help in public infrastructure construction. In climatic vulnerabilities foreign aid helps a lot. Foreign aid provides sustaining episodes to pay for circular debt also. But entire dependence on foreign aid is no more than quixotic project without having foreign aid a counter is able to build sound economic policies, sustainable foreign reserves, by balancing trade deficits. Moreover, taxes are spented to build infrastructures, and ensuring environmental safety is possible through strong will instead of finance. And circular debt of power sector is better managed by reducing imported energy sources. In the words of former World Bank President "Robert Zodlick":

"Aid is not an end in itself
The purpose of aid must be
to create the condition
where it is no longer
needed"