

QNO. 5

Foreign Aid: Road
to Stability or Recipe
for Disaster?

Outline

1. Introduction

- 1) World becoming a
"global village"
- 2) IFIs such as IMF,
WB etc
- 3) Their's statement

2. How Foreign Aid Leads to Stability in a country

- 1) It helps in development

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and prosperity of a
state.

a) BRI, CPEC

b) Ayub's "Decade
of Development"

2) It plays an instrumental
role in alleviating
poverty.

a) Foreign aid by
IFIs

3) It saves country from
solvency and bankruptcy.

a) For example, Argentina

b) Sub-Saharan African
countries

c) Sri Lanka

4) It lends a helping hand
in tackling Pandemic.

a) COVID-19 Vaccines

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5) It is indispensable for tackling climate change.

a) For example, foreign aid to climate-vulnerable countries such as Pakistan during 2005 and 2022

b) It helps in stimulating economic growth of a country.

a) Improves foreign reserves

b) Gives space to make difficult decisions regarding economy

7) Vital for achieving Sustainable Development Goals (SDGs), 2030

3. How Foreign Aid is a Recipe for Disaster;

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1) It increases States' dependence on foreign aid and dole-outs

a) Pakistan during
Afghan jihad and
9/11

2) Make States reluctant to make difficult economic decisions

4. Conclusion

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Essay:

Industrial revolution has brought unprecedented prosperity and progress to the world. It resulted in globalisation which has made the world a 'global village'. Many International Financial Institutions (IFIs) such as IMF and WB were formed to help member countries in need. In such interdependent setting, foreign aid has become a vital instrument for helping states around the globe. It is an important feature of a global economy. Two schools of thought exist regarding foreign aid. On one hand, foreign aid leads to prosperity and stability of

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the state; not only it alleviates poverty but also saves state from bankruptcy. In this globalised world, it is crucial in tackling pandemic and climate change. Foreign aid is crucial in stimulating economic growth and in achieving goal of SDGs - global marker for progress. On the other hand, foreign aid leads to states' dependence on dole-outs and makes states reluctant to make difficult economic decisions. Therefore, foreign aid is essential for survival in modern globalised economy.

Foreign aid helps in leads to stability in a country by helping in development

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and prosperity of a state. It provides state with necessary fund to build infrastructure such as road, highway and motorway. These projects further created employment opportunities which lead to prosperity of a country. For example, China through its Belt and Road Initiative and China-Pakistan Economic Corridor built thousands of kilometers road infrastructure and created employment opportunities to the people in world and Pakistan respectively. Foreign aid led to decade of development during Ayub Khan's era. Hence, foreign aid leads to development and prosperity of a state.

In addition, foreign aid

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helps in alleviating poverty in the country. State use this money to provide vocational training to unemployed people. It also spends this money in the form of social security projects to help poor people. IFIs such as IMF and WB provide funds to states to alleviate poverty. Hence, foreign aid also plays an important role in relieving poverty.

Furthermore, foreign aid saves country from bankruptcy. When state has limited foreign exchange reserves, foreign aid can inject a new life in a state. It provides state the necessary cushion to survive bankruptcy. For example, Argentina

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has defaulted on its sovereign debt but it is floating due to foreign aid and loans. Similarly, many sub-Saharan African countries are surviving due to foreign aid given by wealthy countries and IFIs. Also, Sri Lanka has survived solvency due to aid by China and India. Hence, foreign aid helps in preventing bankruptcy of the country.

Not only foreign aid prevent bankruptcy but it also helps in tackling Pandemic. This is particularly true for developing countries. As developing countries are poorly and inadequately resourced, they cannot tackle Pandemic on their own. Foreign aid provides them with necessary

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where withal to save its people's lives. During Pandemic, foreign aid helps states in purchasing and producing medical gear and vaccines. For example, during Covid-19, many developing countries such as Pakistan, Bangladesh, Eltonia etc, got COVID vaccines and necessary medical gear with the help of foreign aid. Hence, it also lends a helping hand in tackling Pandemic.

Also, foreign aid is sine qua non for tackling climate change.

Climate change is a global phenomenon which is wreaking havoc across the world. Poor countries are disproportionately affected by

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it. They cannot tackle climate change on their own with their limited resources. It is the responsibility of top wealthy countries — also top emitters of CO_2 — to provide foreign aid (climate finance) to developing countries for tackling climate change.

Climate change cannot be tackled without foreign aid.

Currently, many countries vulnerable to climate change are given foreign aid by developed countries and IFIs. Pakistan also got foreign aid during 2005 devastating earthquake. It also got more than \$200 million foreign aid during 2022 floods. So, foreign aid is necessary for tackling climate change.

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Foreign aid leads to stability of a country by stimulating economic growth of the state.

It stimulates economy by improving foreign reserves of a country.

A country with less fiscal space cannot make a major and difficult decision regarding economy.

Foreign aid gives country ample space to make difficult and harsh economic decisions which

helps in stimulating economy on sustainable grounds. Hence,

foreign aid stimulates economic growth of a country.

Lastly, foreign aid helps in achieving Sustainable Development

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Goal (SDGs) which states have to achieve till 2030. SDGs are benchmarks setup by United Nations for states to achieve.

It included improving health, education, governance, tackling poverty, climate change, child labour and gender inequality etc. Many of the goals have global dimensions which cannot be achieved unilaterally.

Foreign aid helps countries to achieve these markers for progress. Developing countries need them the most in attaining these lofty goals. Hence, foreign aid also helps in achieving SDGs.

On the other hand, there is another

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school of thought which opines that foreign aid is a recipe for disaster and it increased states' dependence on foreign aid and debt. States become complacent and don't do not go for major reforms. They are always looking for foreign aid to drive their country. For example, Pakistan became dependent on foreign aid during Afghan jihad and during 9/11 'war on Terror'. But it is not the case so. States deliberately ignore economic reforms due to vested interests. Many countries have undertaken reforms with the help of foreign aid such as Singapore,

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South Korea and India. Hence, it does not make states dependent on date-out.

Moreover, foreign aid makes states reluctant to make difficult economic decisions. They have habit of enjoying and consuming foreign aid to run their countries. But many countries have done meaningful reforms with the help of foreign aid to bolster their economy. Hence, foreign aid leads to meaningful economic reforms.

In a nutshell, foreign aid leads to prosperity and development of state. It does not make state

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dependent on dole-outs and funds. But, it helps in alleviating poverty, saves country from solvency and assists in tackling pandemic and climate change. Not only foreign aid stimulates economic growth of a country, but also helps in achieving ~~so~~ SDGs. States must use them for public welfare and prosperity instead of wasting it on luxuries and extravaganzas.