

## Topic: Foreign aid: Road to stability or Recipe for disaster.

### Outline

1) Introduction.

2) Decoding the term "Foreign aid."

3) Foreign aid: Recipe for disaster.

3a) Foreign aid destroys the country by compromising spending on development projects.

i) Deteriorates the Human Development Index of a country

ii) Increase marginalisation of down-trodden groups

iii) Worsen unemployment.

3b) Foreign aid is a neocolonial tactic that makes it a recipe for disaster.

i) Supports colonial statecraft in developing countries

ii) Monopolizes strategic resources of aid-seeking nations.

iii) Undermines the sovereignty of nations.

3c) Foreign aid brings economic disaster in a country.

i) Creates Sisiphyian cycle of Debt trap.

ii) Supports protectionist economy instead of competitive one.

iii) Creates persistent fiscal imbalance in economy of developing nations.

4) Foreign aid: Road to Stability.

4a) Foreign aid corrects stabilises the economy of a country

4b) Because of external aid, investment increases in a country.

4c) Conditionalities associated with foreign aid brings structural reforms that makes a nation stable.

4d) External financial support brings environmental stability in a country.

5) Foreign aid is <sup>a</sup>the recipe of disaster.

5a) Stability, and investment from foreign aid is a short-term respite leading to disaster.

5b) Prosperity cannot be engineered

through foreign aid  
1) Conclusion.

### The Essay:

In the Shakespeare's drama "Hamlet", the main character offers timeless advice to his son, Laertes, that "Neither be a lender nor a borrower" warning of the bad consequences of debt and aid.

The main character, Polonius, emphasizes upon the point that borrowed and begged money brings short-term relief and luxury but cost the people their independence and social standing. In the contemporary world, this advice is reflected in the ills of foreign aid, which compromises the developmental spending of a nation by worsening the human development index, exacerbating the already-present marginalisation and increasing the number of unemployed people. Besides the crisis of development, foreign aid is the new

method of ~~devel~~ colonialism in developing countries where it supports the colonial elite, ~~is~~ used to ~~co~~ dominate the important resources and ~~buries~~ their sovereignty. Foreign aid brings economic disasters in a country by creating never-ending cycle of debt trap, seeking protectionism for certain corporations and sustaining flawed taxation policies in the economy of that country. However, a number of critics cite the foreign aid as a tool of stabilising the economy of a country ~~as~~ foreign aid provides balance of payment. Moreover, these critics also consider foreign aid as essential to attract investment in a developing economy. However, ~~foreign aid~~ <sup>debt</sup> is a recipe for disaster rather than road to stability because it cuts the development spending, creates neocolonialism and worsen economic crisis in developing world.

To begin with, foreign aid is the external financial support that

is sought by the countries to support their economy. It includes aid, loans and grants which differ from each other regarding their conditionalities and the time of return. This external financial support is either given by a country or a multilateral organization.

**According to Organization of Economic Cooperation and Development (OECD),** America and China holds the record of the nations that has given more than 70% of the global aid. Moreover, multi-national corporation International Monetary Fund (IMF) has given 52% of the global loans.

~~In this~~ By using these tools, ~~for~~ the developed world and organizations use foreign aid to further their interests that makes ~~them~~ it a recipe for disaster.

When foreign aid is injected into the accounts of a country, it compromises the spending of their budget on development projects. It is done by deteriorating human development,

increasing marginalisation <sup>of down-trodden groups</sup> and worsening unemployment. Foreign aid comes with the condition of cutting the spending by the government. When the aid-seeking government cannot decrease its ministerial budget, it decreases the budget on education, health and social welfare of the people. Resultantly, the nation becomes locked in the jail of illiteracy, disease and mental illness which ~~decrease~~ <sup>reduce</sup> the human development in the nation. **As Pakistan holds the foreign debt of \$76 trillion, its human development index is 164 among 178 nations, indicating that how foreign aid is disastrous for development of a nation.**

As human development recedes due to external aid, marginalisation of down-trodden segments is increased. The programmes, attached with external debt mandator debt-creating

women and children development programmes. As a result of reduction in expenditure, women and children who are already neglected segment in third-world countries, face retarded mental and intellectual growth.

**Structural Adjustment Programmes (SAPs)** can be taken as a case study in this regard. SAPs binds the aid-seeking nations to cut their expenditures for attracting further aid. Resultantly, the countries like Pakistan reduce expenditures on women and children projects resulting in their marginalisation.

Besides marginalising women and childrens, foreign aid worsen unemployment in a country. Instead of creating jobs, the governments cut the number of seats to preserve security for seeking loans. Moreover, the indebted government reduces the number of departments as a symbol of austerity measures which further decrease the

opportunities for youth to join the workforce. As a matter of fact, 95000 jobs were lost in South Korea in 1997 because of seeking loan from IMF. Resultantly, the unemployment increased in South Korea indicating an inverse relation between foreign aid and employment opportunities.

Additionally, foreign aid is a tactic devised by the neocolonial powers. The developed world uses debt and aid as weapons to sustain their dominance in the world, which makes external finances a recipe for disaster. It can be indicated from the support of loan-giving international bodies to colonial statecraft in the developing world. Aid, loans and grants flow from rich countries to the rich people in poor countries. The rich people use the external loans to support extractive institutions that results in the accumulation of

wealth in the hands of colonial elite. According to United Nation Development Programme (UNDP), foreign aid flows into the stream of oligarchic elite which is already consuming more than 60% of GDP of Pakistan. It indicates that foreign <sup>finance</sup> sustains the rule of the few people like the colonial institutions which results in disastrous on the strategic resources of a country.

foreign aid and debt are used by neocolonial powers to monopolize the strategic resources of a nation. Initially, countries and organizations support the economy of developing nations by lending them loans, aid and grants. When the countries are unable to pay those loans, lending bodies demand access to the strategic minerals of that country. In 2022, when Sri Lankan Banks went default, the lending bodies demanded Hambantota port

in return of loans, which is a hub  
for strategic minerals of Indian  
ocean. In this way, neocolonial  
bodies still command the world  
through aid and debts which  
undermines the sovereign authority  
of the nations.

Foreign aid is disastrous  
to the sovereignty of a country.  
It is because of the reason that  
external lending bodies create the  
external oversight on the national  
security of a country. When a  
country tries to independently  
decide its security affairs, which are  
against the interest of lending bodies,  
they use these neocolonial economic  
tools to coerce that country into  
obedience. In his book "The  
Line of Fire", President of Pakistan  
Pervaiz Musharaff explains that  
America threatened to stop aid if  
Pakistan would not provide him the  
military bases. It suggests that  
foreign aid is used to undermine

the sovereignty of Pakistan.

Besides creating neocolonialism, foreign aid brings economic disaster in a country. Foreign aid creates Sisiphran cycle of debt trap. ~~The main reason~~ Due to external loans, economy is stabilised in the initial stages. However, when the reserves deplete, budgetary crisis is created. In order to tackle this situation, the country seeks further debt which results in never-ending cycle of debt. **It is the reason that Pakistan has to persistently move to IMF as its economy has been locked in disastrous trap of debt.**

Secondly, foreign aid brings economic disaster by destroying competitive markets of the borrowing nation. In the liberal world order, economy grows when multiple companies compete resulting in generation of national wealth. However, when a

country unlocks the foreign loans, the lender demands preferential access of its indigenous companies to the markets of indebted nation. Resultantly, the foreign companies belonging to the lending nations prevail in the markets of the developing world. It further leads to protectionist economy that is destructive to the economic framework of a country.

⇒ Moreover, foreign aid brings persistent fiscal imbalance in the economy of an indebted state. The primary reason is that taxation bodies become habitual to the aid neglecting the need of proper taxation mechanism. Secondly, a majority of collected revenues is utilized in the payment of interest on foreign loans. In the budget 2025-26, Rs. 11 billion tax was collected out of which more than Rs. 8 billion was paid to the lending countries creating a

persistent issue of fiscal imbalance in Pakistan.

Contrary to the thesis that foreign aid is a recipe for disaster, a number of critics hold the view that foreign aid is a road to stability by providing following arguments:

First argument by those critics is the notion that foreign aid stabilises the economy of a country. They argue that when the reserves of a country are in the declining phase, foreign aid stabilise those declining reserves resulting in maintaining balance of payment. **In 2022, when Pakistan was at the brink of default, IMF loans stabilised the reserves and supported balance of payment in Pakistan.**

Secondly, external aid increases investment in the country. When foreign loans are injected into the market of a

country, it boosts the investors' confidence. As a result, investment in different sectors of the aid-seeking nation is increased. Moreover, investment improves the stock exchange of the indebted state indicating a direct relation between foreign aid, investment and progress of economy.

Thirdly, conditionalities associated with foreign aid are not a form of dictation but are the pathways to stability. The terms and conditions mandate the loan-seeking nation to bring structural reforms in their economy. When the nation widens the tax base, privatise the assets and liberalises its <sup>monetary</sup> ~~fiscal~~ policy, private sector pools in investment resulting in stable economic growth indicating that ~~the~~ foreign aid is a road to stability.

Lastly, critics argue that external financial supports brings

environmental stability which is a part of economic stability. A number of global lending bodies prefer loans in the field of climate change. When the developing nations unlock such loans, it helps them to adapt to the adverse impacts of climate change. Resultantly, the economic cost of disaster is decreased, and investment is attracted in the field of green energy which leads to stability.

Above points are unsubstantiated because they lack factual support. Therefore, it is proved that foreign aid is a recipe of disaster. First, foreign aid and loans bring short-term respite. They bring stability and investment for the short period. It can be proved from case study of Sri Lanka where external aid <sup>led</sup> ~~leads~~ to progress from 1970-1975. However, the eventual debt trap led to default in 2022 indicating that

foreign aid is a pathway of disaster.

Secondly, prosperity cannot be engineered through foreign aid. A number of critics argue that it brings financial stability and structural reforms. However, case study of Afghanistan and Syria negates this notion. Despite billions of aid in these countries, their structure remained extractive which failed to be transformed into prosperity. Thus, prosperity and stability cannot be engineered through foreign aid.

To sum up all the facts, which have been stated, foreign aid is a recipe for disaster as it compromises development, favours neocolonialism and exacerbates economic crisis in the indebted nation. According to some critics, foreign aid is a road to stability as it brings reforms in economic framework, and supports environmental stability. However,

foreign aid is a short-term sacrifice for never-ending cycle of debt trap. Secondly, foreign aid is a method to engineer prosperity which cannot lead to stability. Thus, foreign aid is like tentacles of an octopus which must be razed to ensure sustainable growth.