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ESSAY I

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FOREIGN AID: ROAD TO STABILITY, OR RECIPIE FOR DISASTER

OUTLINE

1. Introduction.

Thesis Statement: Despite temporary relief, foreign aid disrupts the political autonomy of a nation, economic sovereignty along with social and cultural imbalances, while serving as a recipe for disaster.

2. Foreign Aid is a Recipe for Disaster:

1. Aid with conditionalities hinder the autonomous national policy making of a state.
2. Foreign aid erodes the economic sovereignty while trapping the developing states in a continuous cycle of dependency.
3. Economic interdependency and the dominating influence of lenders bind the underdeveloped and developing states in an unequal global supply chain.
4. Demands of International Financial Institutions to privatise the public services gives short term fiscal relief with long term economic instability.
5. Demand for subsidy cuts raise public sentiments, while leaving them more prone to economic vulnerability.

6. Foreign aid with the influence of lenders prevent technological advancements to increase their imports.

7. The demand for environmentally destructive infrastructural projects, abruptly disturbs the ecosystem which harms the underdeveloped nations due to lack of ^{climate} resilient infrastructure.

8. Labor exploitation and misuse of human capital of developing nations according to their demands.

C. How Foreign Aid is a Road to Stability?

1. Prevents developing or underdeveloped nations from the risk of economic collapse and bankruptcy.

2. Involvement in international financial institutions increase Foreign Direct Investment (FDI), which is necessary for infrastructural development and youth employment.

3. The demand for transparency prevents the leaders from corruption, they would be held accountable in international forums otherwise.

D. Conclusion

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According to Pakistan Economic Survey, the budget of the year 2025-26 is 17.6 trillion Rupees. Along with that, IBA study shows that Pakistan had the highest growth rate in South Asia, in the first 20 years after independence. There is no second thought in the fact that whenever, Pakistan was about to bankrupt or any other developing nation, foreign aid prevented from economic collapse. However, foreign aid with conditions serves as "Debt-trap Diplomacy" of the developed nations. It violates the popular principle of non-intervention and undermines the autonomous decision-making of sovereign nations. Moreover, it obliterates the economic sovereignty by making the underdeveloped them dependent on financial aid for their survival. The unequal trade relations between the developed and the developing countries, the demand for privatization and subsidy cuts undermines public sentiments, widens government-public trust deficit and often exploitation of human capital and skilled workforce. Furthermore, the influence of lenders in international financial

institutions, prevent the technological advancements of developing countries for their financial benefits and global role as superpowers. Keeping in view, that foreign aid intentionally or unintentionally obliterates the sovereignty and independence of a nation, yet it offers few benefits that prevents bankruptcy, temporary fiscal relief, attracts Foreign Direct Investment (FDI) and prevents corruption. Hence, despite temporary relief, foreign aid disrupts the political autonomy of a nation, economic sovereignty along with social and cultural imbalances.

Foreign aid is a recipe for disaster for developing nations because aid with conditionalities hinder the autonomous national policy making of a state. States no longer remain sovereign in their decision making. This ultimately violates the pluralist principles of sovereignty, non-intervention and recognition. For instance, in 2025 IMF imposed 11 new conditions on Pakistan to release the next amount of \$7 billion aid under the Extended

Fund Facility. In Total, 64 conditions have been imposed on Palestine by IMF. This shows that every time, aid impose new conditions which haults the autonomous decision making. Hence, foreign aid is more a recipe for disaster than a road to stability.

Moving forward, foreign aid erodes the economic sovereignty while trapping the developing states in a continuous cycle of dependency. For infrastructural development, generating employment and public services, to fulfill all such needs, developing nations need aid.

Along with that, a continuous cycle of dependency also refers to a harsh reality of developing nations that they need to get loans to pay the others back. According to IMF, Palestine has taken loan for 28 times in its 78 years history. This shows that foreign aid comes with short term stability and long term economic dependency that undermines the economic sovereignty of developing nations.

Moreover, foreign aid often comes

with the demands of privatization. It disrupts public sentiments because of the privatization of public services. It causes the public to suffer inflation, economic instability and difficulty in survival. Moreover, privatization declines national image of a state. According to State Bank of Pakistan, Pakistan International Airline (PIA) has been sold of \$135 billion Rupees to Arif Habib Group. This privatization of PIA provides temporary relief in fiscal deficit, yet it makes the people to suffer and nation to suffer absolutely.

Furthermore, economic interdependency and dominating influence of lenders bind the underdeveloped and the developing states in an unequal global supply chain. It keeps the developing nations in the periphery and make themselves the core of global supply chains. Exploitation of resources and labor in developing states is common while benefitting the developed ones at large. For Instance, the World System Theory by Immanuel Wallerstein, categorizes the

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world into Core (Global North) and Periphery (Global South). The core maintains its dominance by exploiting by exploiting the periphery for raw materials and cheap labor, then selling back high value manufactured products. Resultantly, the developing nations are trapped in unequal trade relations via economic interdependency.

In addition to this, international financial institutions demand for subsidy cuts, the cuts in public spending and reduce expenditures. These conditions raise public sentiments and widens trust deficit between the government and public.

Ultimately, it lead towards societal disbalance and political instability due to rise of political polarization.

According to the fact that in the history of Pakistan, not a single government became able to complete its tenure. It was majorly due to public dissatisfaction and the narratives of opposition parties, just to lead down the government. Hence, the subsidy cuts generate alot of societal disruptions which widens public sentiments.

Furthermore, foreign aid with the influence of lenders prevent technological advancements in developing nations to increase their import, along with keeping the underdeveloped nations dependent. Despite, skilled workforce and required capabilities, developing nations are dependent for technological advancements.

According to Intellectual Property Rights (IPR) under WTO's TRIPS Agreement restrict technology diffusion, forcing developing countries to licence technology at high cost. This research clearly highlights how developing nations are restricted to utilize their skilled workforce for technological development and nation's progress.

Moreover, foreign aid comes with environmentally destructive infrastructure development which disrupts the entire ecosystem. The point of ~~concern~~ concern here is that the western nations remain protected from environmental vulnerabilities due to their climate resilient infrastructure, yet leaving the underdeveloped nations vulnerable to climatic variations. For instance,

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Donald Trump's exit from Paris Climate Agreement on 20th January, 2025 reveals the non-serious attitude of developed states towards climate vulnerabilities.

The delayed allocation of funds under Conference of Parties for underdeveloped nations makes them vulnerable. Hence, failure to provide aid in need is the major drawback for developing nations.

Last but not the least, labor exploitation and misuse of human capital of developing nations is indeed the biggest impact on developing countries which proves that foreign aid is a recipe for disaster. Many developing nations like Pakistan have skilled workforce which has the capability to benefit the nation in all aspects if given the opportunities. Instead, they are heavily exploited. According to International Labor Organization (ILO), workers in developing nations earn less than 20% of the final retail price of goods sold in developed markets (e.g. garments, electronics). This research reveals the labor exploitation under the umbrella of financial aid

to developing nations.

Considering all the above mentioned impacts of foreign aid on developing countries that led to the recipe for disaster. Foreign aid often comes with limited but significant benefits that protect the country both politically and economically.

Foreign aid prevents developing or underdeveloped nations from the risk of economic collapse and bankruptcy. With increasing fiscal deficit, countries often face the risk of bankruptcy which would ultimately become possible, if they are not provided with financial aid.

For instance, in September 2024, the International Monetary Fund (IMF) approved a US \$7 billion loan package to Pakistan to prevent default and stabilize the economy. Without these funds, the developing nations would be unable to survive. Hence, foreign aid is a blessing in terms of the prevention of economic collapse of underdeveloped nations.

Moreover, involvement in International Financial Institutions attracts the Foreign Direct Investment (FDI).

FDI is necessary for infrastructural development, employment generation and overall economic progress. It also stabilizes the country by contributing in the revenues and prevents fiscal deficit also increases the chances of foreign aid, and vice versa. According to Palestine Economic Survey, FDI in 2025 raised to \$4.02 billion with an increase of 27% from previous year. Without international involvement and adequate foreign policy measures, this increase would not be possible, leading towards economic instability. Hence, foreign aids are sometimes proven to be a road towards stability.

Lastly, along with the conditions of IMF which undermines the political autonomy and economic sovereignty, IMF also imposes the condition of transparency in the assets of office holders to prevent corruption. It is to check and maintain balance between the

incomes and assets of office holders. As mentioned in 11 new conditions imposed by IMF on Palestine, one is to publish the assets on government website by September, 2026. This is the necessary step to ensure transparency and accountability of leaders for public welfare and nations progress. Hence, along with harsh conditions, IMF also impose conditions that are necessary for nation's welfare, ultimately providing a road towards stability.

In a nutshell, every nation should strive towards economic independence and political autonomy while preventing any external force to dominate national decision making and violate the sovereignty of a nation. However, with confiscated and limited benefits, nations often suffer hardly due to long-term political, economic and social vulnerabilities. Economic dependency, technologically underdeveloped nations, labor exploitation, continuous fiscal deficit, all are the most

concerning variables that every nation face as the ultimate impacts of foreign aid. Developed nations often trap the developing ones in their "Debt-Trap Diplomacy" while making themselves the regional and world hegemon. They often strive towards the containment of rising nations but making them dependent with foreign aid, harsh conditions and exploitation of their resources. On the way of conclusion, foreign aids are more to recipients for disasters than roads to stability for both the developing and the underdeveloped nations, with its severe economic, political, social and environmental impacts.

