

Foreign Aid: Road To Stability or recipe for Disaster

Outline

1. Introduction

Thesis Statement: Foreign aid often result in economic upheaval of the recipient countries. While few factors indicate the economic benefits of these packages, these are short-lived. The long term disasters that follow lead the recipients to economic disasters.

2. Conceptualizing the term 'Foreign Aid'

3. Foreign aid leads to economic disasters in the recipient countries

- a) Intervention in policy making undermines national sovereignty
- b) Donors focus on repayment of their lent aid
- c) Austerity reforms can lead to protests and loss of government legitimacy
- d) Never-ending cycles of borrowing and repayment

- e) Privatization of state assets resulting in job losses
- f) Public backlash due to raised taxes and reduced subsidies
- g) less social spending exacerbating poverty and inequalities

4. Factors indicating that Foreign Aid enables short-lined economic benefits

- a) Regains investor confidence
- b) Immediate financial relief against balance of payment crisis
- c) Improved credit rating allows access to global markets
- d) Emergency assistance during fiscal deficits
- e) Prevents economic collapse in crisis economies

5. The long-term disasters often follow in the disguise of temporary benefits

- a) Investors draw back as the economic and political issues resurface
- b) Immediate reliefs are short-lined and do not curb structural issues
- c) Credit ratings drop again as the programs end
- d) Austerity measures exacerbate financial and social inequalities
- e) Repeated bailouts entrench dependency and compromise sovereignty

6. Conclusion

Essay

Foreign aid has been accessible for countries facing economic crisis to assist them in regaining financial stability. Global organizations and developed countries offer aid to those in crisis to avoid their economies from collapsing and to prevent the recurrence of incidents like the great economic depression of 2008. While these foreign aids have assisted countries, they have greatly resulted in economic and social upheaval of the recipient countries. The few benefits that these aids offer are often short-lived. The long-term disasters that follow lead the recipients to economic disasters. These aids come with austerity measures and policy frameworks for the recipient countries. These often compromise the sovereignty of the countries and result in political dilemmas. These measures include reduced social spendings and privatization of state assets. This results in loss of jobs and exacerbates economic and social inequalities. However, the aid helps the countries in meeting their balance of payment crises, improving their global credit rating, and often prevent sudden collapse of

economies. These benefits are usually temporary and short-lived. As soon as the political issues resurface, the investors pull out their investments resultantly dropping the effectee's credit rating. Foreign aids cannot curb the structural dilemmas of the recipient country, hence, it hardly has any role in permanent economic stability of the country. It can often exacerbate financial and security inequalities while entrenching dependence on donor institutions and nations.

Foreign aids are the conditional lending programmes aimed at stabilizing the balance of payments in struggling countries through fiscal consolidation and implementation of austerity policies. Austerity policies are the recommended measures which the recipient countries need to abide by to ensure their access to respective foreign aid. History is filled with economies that were able to restore due to timely assistance through foreign assistance. For instance, Sri Lanka in 2013, Argentina in 2003 and 2014, Pakistan in 2018.

These countries were rescued by IMF bailouts when their economies were struggling largely.

These financial assistance in the form of aid often intervene with the policy frameworks of the recipient countries. This undermines the state's sovereignty in its own governance. For instance, Pakistan's fuel pricing and tariff rates are often regulated as a result of implementation of policies recommended by IMF (Mr. Zahid, IMF packages and Pakistan, Dawn Newspaper, 2025). These policy implementations raises concerns about national sovereignty of the recipient. They can lead to the existential crises for the recipients. Thus, the intervention of donors in policy making undermines the national sovereignty of the recipient countries.

The foreign packages or economic aids always accompany certain policy and regulatory framework in order to ensure repayment of their lent money. Their focus reside on their benefit which severely undermines the policy framework requisite to ensure the long-term sustainability of the recipient nations. Institutions like the IMF focus on debt servicing and repayments. For instance,

during the economic crisis of 1980's, the economies had collapsed yet the repayments to monetary institutions continued. The countries already suffering from economic crisis were further drained off their fiscal means. Thus the donors focus on the repayment of their lent aid hence deviate from the long-term sustainability policies requisite for recipient countries.

The associated austerity reforms often include lay offs from public and private organisations which lead to protests and loss of government legitimacy. This creates an environment of political instability for the recipient countries as well. These kind of social reforms were part of the IMF bailout to Pakistan in 2010 to 2015. As a result of these conditions, millions of employees and labors were laid off in 2018. According to the Gallup consolidated survey of 2019, approximately 2 million people were laid off from their jobs. This created a situation of political instability which later resulted in government outburst. Thus, the reforms associated with foreign aid can largely lead to political instability.

When countries engage in receiving foreign aid, it resorts them to a never-ending cycle of borrowing and repayment. These economic aids are accompanied by heavy debt - burdens which lead to further depletion of the country's economy. The country then reaches these monetary platforms again for financial aid. Countries like Argentina, Sri Lanka, and Pakistan have repeatedly accessed IMF bailouts to stabilize their economies. According to the economy survey of financial year 2024-2025, Pakistan has reached IMF for around 23 times for economic support. Hence, countries that rely on foreign economic assistance are often stuck in a debt-trap.

In order to escape these debt-traps, countries follow the policy frameworks given by these financial institutions. These often include privatization of state assets to ensure better and maximum utilization of state resources. This was seen in the Eastern Europe in 1980's economic crisis. Currently, Pakistan took privatization measures to attract bidders

for the Pakistan International Airlines in 2014. In doing such, the employees were laid off in a large number. From 14,000 employees, only 7,000 were retained, while rest of the 50% employees lost their jobs. Thus, privatization of state assets often result in job loss for the masses.

As a part of these austerity measures, taxes on income and sale are also raised while subsidies are often reduced. This leads to public backlash on government policies and results in social unrest. Pakistan, in post 2024 IMF reforms, saw a rise in taxes and reduced subsidies for farmers. This was reportedly followed by a number of protests from farmers and owners of agri-business (Al-Jazeera, 2024). Thus, extreme austerity measures to access foreign aid result in public backlash and social unrest in the recipient countries.

Beside reduction in subsidies, these measures also demand a reduction in overall social spending. This leads to exacerbating social inequalities and poverty. The number of people who live below the

poverty line resultantly increases. According to the World Bank's report on poverty, prosperity, and planet report 2025, the austerity periods observe more poverty and social inequalities among masses of the recipient countries. Thus, the austerity conditions associated with the foreign aid often require reduction in social spending which aggravates social inequalities and exacerbate poverty.

While countries reach the foreign aid to gain economic stability, the benefits are often short-lived. When countries access such economic aid, their currency's value rises which in turn boost the investor confidence in the country. More developed nations are attracted to benefit from the financial resources. According to the UNDP's report on economy of developing countries, the IMF programmes and bailouts are signals of credit worthiness. It means that your economy is safe for investment. This opens flows from the World Bank, the Asian Development Bank, and other monetary institutions. Thus, it can be asserted that foreign aid revitalizes investor confidence in recipient countries.

The immediate influx of payments helps the recipient countries in stabilizing their economies against balance of payment crisis. This refers to when a country has a monetary obligation due towards another country or institution and lacks the means to fulfil it as such. At these times, foreign aid actually saves the economies from collapsing. For instance, the IMF's bailout of 3 billion dollar in 2023 helped Pakistan in regaining its footing by curbing the balance of payment crisis. This amount was given on a stand-by arrangement. Thus, countries strive against balance of payments with the foreign aid.

When the aid enters the state reserves of recipient countries, their credit rating is boosted. This allows these countries to access the international markets. This can be understood by 2008's economic crisis in Europe. The region, at large, had to exit the global market due to its currency devaluation and low credit rating. However, acquiring foreign aid through bilateral means and monetary institutions increased

its credit rating and allowed its access to global trade-market. Thus, large influx of financial aid into state reserves allow the countries to access the global trade markets by increasing their credit rating.

The presence of and access to foreign aid also saves the developing economies from sudden collapse. When countries are suffering from fiscal deficits, they can use foreign aid to regain control over their economies. For instance, Argentina, the top borrower from IMF was going through an economic collapse in 2018. As a result it approached the IMF and secured a 50 billion dollar aid. This helped the country from complete economic collapse. Hence, foreign aid assists the countries in avoiding complete collapse of economy.

Foreign aid also helps the recipient countries in overcoming the fiscal deficits and circular debts. Fiscal deficit refers to when the total expenditure of the country exceeds its total revenue generated in one complete financial year. When this happens, foreign aid helps

The struggling countries in balancing their expenditure and revenue. This is necessary for a state to function financially. For instance, Sri Lanka was struggling with the dilemma of fiscal deficit. It reached IMF for foreign aid and secured a 3 billion dollar aid in the year 2018. This allowed the country to operate smoothly. Hence, the foreign aid helps countries going through fiscal deficits.

Despite these benefits, the foreign aid poses long-term problems for recipient countries. While it boosts investor confidence, the investors and markets draw back as soon as economic and political issues resurface. This further submerges the already struggling economies into the economic crisis. For instance, in Pakistan's economic crisis and inflation in 2023, countries like Total and Ferguson left the country by selling its assets. Thus, the investor confidence created by foreign aid is short-lived and they exit as soon as conditions for business do not seem beneficial.

Foreign aid can help the recipient countries in dire hours,

however they cannot resolve the structural issues of countries. Ensuring strong economy requires development of strong infrastructure, presence of capable leadership, and intellectual human capital. Dambisa Moyo, an African Economist, addressed this in her book 'The Dead Aid', 2009. She critiqued that financial aid failed in stabilizing the economy of Africa as it requires structural reforms for a country to grow. Thus, while there are temporary allures, the long term structural reforms cannot be achieved by foreign aid.

As far as the improvement in credit ratings is considered, these ratings stop and drop as soon as the foreign packages end. Since, aid package artificially stabilize the economies by increasing taxes and reducing social expenditures, as soon as these aid programs exit and government resort to old policies, the credit ratings drop again. For instance, in 2010, Greece improved its credit rating by acquiring foreign aid. However, its policy stakeholders struggled in understanding the credit politics which led to exit from

the global markets. Thus, aid can temporarily increase the credit rating but it is not a permanent way to sustainability.

Furthermore, the emergency assistance via economic means follows austerity measures which exacerbate financial and social inequalities. These lead to social and political unrest in the recipient countries. For instance, as a result of conditions imposed by the IMF on Pakistan in its recent bailout of 2024, the inflation sky-rocketed to 12% surge in the country. (Economic Survey of Pakistan, 2024-2025). This led to public unrest in big cities including Karachi and Lahore. Thus, associated austerity measures in the countries receiving foreign aid, lead to social and political inequalities and imbalance.

When countries reach monetary institutions repeatedly for foreign aid and bailouts, this entrenches economic dependency and compromises the recipient's sovereignty. For instance, in 2025 IMF imposed a condition on Pakistan to disclose the assets of its public officials and

imposed a ban on purchasing vehicles through cash transactions. This results in dictatorship of policy control of one country through foreign entities, thus impacting the sovereignty of recipient countries. Thus, foreign aid exacerbates economic dependency and compromises countries' sovereignty.

From the above discussion, it can be fairly deduced that extensive reliance on foreign aid compromises the benefits and growth of the recipient countries at large. While it has some short-lived benefits, it leads the recipient countries to economic upheaval and long-term disasters. The austerity measures associated to the foreign aid undermines governance, policy making, and social well being of countries. This damages and compromises the sovereignty of nations. The austerity policies such as increased taxes and reduced subsidies lead to social unrest and weaken the recipient countries internally. To ensure proper long-term well-being, countries need to work

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on their infrastructure instead of
relying on foreign aid.