

Analysis on the disadvantages of foreign aid to promote long-term economic development

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Abstract: With the increasing aid from the international community to developing countries, the evaluation of the effectiveness of aid growth has become a controversial topic. Scholars at home and abroad have made in-depth research on this issue from both theoretical and empirical aspects, and have made many achievements, but there is a lack of systematic elaboration on this issue at present. Many academic studies have shown whether development assistance can help recipient countries develop all the way until the day when they no longer need assistance. Most studies on this issue have given negative answers. This paper discusses why foreign aid does more harm than good in promoting long-term economic development.

1. Introduction

Discussions around economic aid have gained much traction in recent years. Economists are arguing that monetary help offered by rich countries to poor ones is regressive and inflicting irreparable damage on local economies. The US has been the top donor, providing billions of dollars of assistance, to Pakistan for more than a decade. Since 2009, the U.S government has committed more than \$5 billion to civilian aid and over \$1 billion in emergency humanitarian response to Pakistan. Yet, the country retains the status of a developing nation and has made very little to no progress towards improving its financial standing. The country has spiralled further into recession and is ridden with debt. An article published by one of its local newspapers, Dawn, stated that Pakistan's public debt went past 87 per cent of GDP in 2019-2020 from 72 per cent in 2017-18. "The country's total external debt and liabilities rose to \$113.8 billion in the fiscal year 2020 from \$106.3 billion in the fiscal year 2019 [1]." However, this is only the tip of the iceberg. Pakistan also owes a hefty return to the International Monetary Fund (IMF) and the UK government According to a British think tank, the aid provided by England to Pakistan amounted to £253 million in 2014 [2]. The struggle to pay back, despite the ever-increasing assistance from G20 nations, is only getting worse by day.

2. Recipient Countries' Corruption

So where does the money, sent in the form of aid, go? Imran Khan, the then opposition party leader – now the Prime Minister of Pakistan – himself admitted that corrupt politicians were syphoning off cash from the multi-million pound UK budget [3]. He further added that the aid sent 'never reaches' the deserving people. It is not new for politicians to use public money to fill their personal coffers. Corruption is rampant across Third World countries, as those in control of power can circumvent third-party supervision. It's not just Pakistan fighting a long battle against inefficiency and corruption. Many African countries are also suffering from a similar predicament. Zimbabwe in particular has seen some of its worst effects. A few years ago, the government of Zimbabwe, led by President Robert Mugabe, was accused of misusing \$7.3 billion donated by an international organization to fight killer diseases in the country, such as HIV AIDS, Malaria and Tuberculosis [4]. Dambisa Moyo, a Zambian economist and a pre-eminent thinker, argues that the more the wealthier nations help Africa with finances the more it will plunge into the depths of

poverty [5]. It's simply because the bureaucracy is inefficient and corrupt to make the right use of the money. Moreover, by making a country dependent on aid, it loses its capacity to become self-sufficient and always relies on external stimulus to buoy the economy. Moyo promotes the idea of withdrawing aid from African countries gradually over a course of five years in her book *The Dead Aid*. She asserts that this will help Zimbabwe and other aid-dependent countries abandon their comfort zones and adopt a capitalistic approach towards doing business [6].

3. The Foreign Aid is a Loan in Disguise

An analysis of the economic growth in Asia, which has received little aid compared to Africa, is a good way to put things further into perspective [7]. Reports published by the World Bank show that from 1981 to 2010, 700 million people in Asia were pulled out of poverty. Of which 627 were from China [8]. It means almost 90% of people who lost their poverty status were Chinese, giving clear evidence that foreign aid isn't the solution. Similarly, India has improved its standing in terms of GDP by a large margin. Today, it is the fastest growing and the fifth-largest economy in the world. Although if put to the right use, aid can make a significant difference. But more often than not it has resulted in bloated and redundant bureaucracies both in terms of donor and recipient countries. So why do developed nations persist in donating astronomical sums of money even when they are aware of the status quo? The answer is quite straightforward. The aid is a loan in disguise. The recipient country accepts financial alms on conditions that it will repay the donor the principal amount with interest. However, as the money received is almost immediately squandered by greedy politicians, nothing is left to repay by the end of the loan period. The result? More money is borrowed to repay the outstanding debts and the vicious cycle continues. An overload of debt puts the recipient country in a position of economic subservience where it's incapable of sustaining its expenses, pushing the nation into a state of abject poverty and unemployment. This is exactly what countries like Pakistan have fallen prey to. The UK report documented that despite the monetary help received by Pakistan, it continues to reel under the burden of widespread destitution and other societal issues. "As many as one in three Pakistanis live on 30p a day or less. One in eleven children dies before their fifth birthday. Levels of under nutrition are above emergency thresholds at 19%. Pakistan also faces an education emergency. Half of all adults, and two-thirds of women, are illiterate and 12 million children are out of school", the report states. Moreover, making large donations makes the giver country look more charitable. But behind this seemingly generous façade lie the vested interests of avaricious administrations that push these debt-ridden countries into the bottomless pit of bankruptcy.

4. Possible Solutions

So what is the way out of this? Wealthy nations should gradually reduce aid and promote the idea of self-sufficiency. Without any financial assistance, governments will be left with no choice but to strengthen their economies and provide employment, otherwise, they may incur the indignation of the local populous and lose their position of power in the next elections. Moreover, developed nations should establish bi-lateral trade with under-developed or developing nations that is beneficial to both parties. In conclusion, aid is not the solution and will only cause more harm than good. As Moyo says, "Money turns good leaders bad, and bad leaders worse". Indeed, some of the African countries that received the most aid – Somalia, Liberia, and Zaire – have fallen into a state of complete shambles and anarchy [8].

5. Conclusion

Although financial aid is one of the necessary conditions for developing the economy of poor countries, foreign aid cannot fully meet the development needs of poor countries. Though some poor countries have received more than one billion dollars to solve AIDS and other problems, the governments of these countries still lack measures to carry out relevant policy reforms. More

seriously, the governments of these poor countries may deepen the corruption situation because of the large amount of foreign aid funds. In conclusion, foreign aid is not a feasible solution and will cause more harm than good.

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