NOVEMBER 2018

Renewing U.S. Economic Engagement with the Developing World

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Daniel F. Runde
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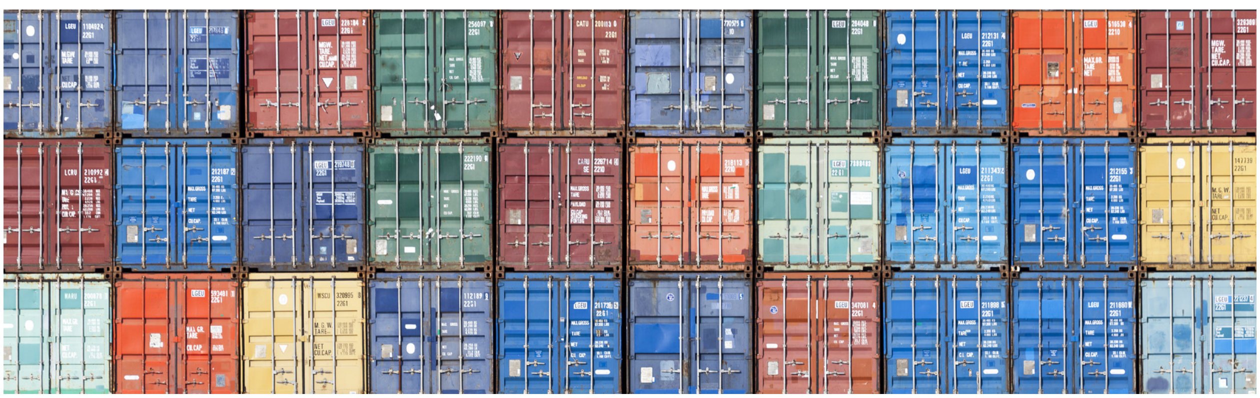

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

A report of the
CSIS Project on Prosperity and Development

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Executive Summary

More Prosperous Developing Countries Now Seek Increased Trade, Investments, And Economic Engagement

- The developing world has dramatically changed in the past 25 years. One set of countries are still fragile and in need of foreign assistance. However, another set of countries is growing and modernizing. Those middle-income nations on the right path to prosperity seek increased trade, investments, and economic engagement—not foreign aid.
- Developing countries need trade, financing, and investments, which can become economic opportunities for the United States and benefit our economy. Increased trade and investment abroad directly support businesses and job creation at home. They also create better U.S. trading partners and forge stronger alliances.
- The rapid pace of urbanization in the developing world means that cities will be challenged in their ability to meet infrastructure and social services requirements—U.S. firms can help meet this infrastructure gap. Developing countries are also struggling to create meaningful employment opportunities for growing populations; the United States can become a great economic ally to these nations by facilitating greater technical assistance, capacity building, and private sector growth. Finally, a massive consumer class is emerging (particularly in Asia and Africa) that is demanding new products and services that U.S. exporters can supply.
- Foreign governments and corporations recognize the modernization taking place in Africa, South Asia, and other regions of the world and view the developing world not as a problem to be solved, but as an opportunity for better economic engagement that can provide mutual benefits. The United States needs to do the same.

Waning U.S. Economic Influence In The Developing World And An Outdated Trade And Foreign Investment Toolbox

- The United States is losing ground in its economic engagement with developing countries: it is no longer *the* major player when it comes to trade, investments, and financing. In 2006, the United States was the principal trade partner for close to 130 nations; this count dropped to 76 in 2016.
- U.S. allies and China are currently filling the void created by the lack of U.S. funds and strategy in emerging economies. Countries such as Germany, the United Kingdom, China and India are practicing commercial diplomacy in the developing world more effectively than the United States.
- The United States has a development toolbox to facilitate trade and investments abroad, but it is outdated, uncoordinated, and lacks strategic vision.
- The U.S. development toolkit is inadequate on four grounds: First, it focuses on health and food insecurity related issues, to the detriment of trade and investment policies. Too heavy a focus on these issues has created an imbalance in terms of funding and technical capacity in the U.S. foreign aid architecture. Second, the development toolkit offers a passive response to China's rise, trying to get China to be a "responsible stakeholder" has not been effective to date. Third, the development toolkit lacks strategic focus and a "partnership" approach with developing countries. Lastly, it does not focus enough on fighting corruption and upholding the rule of law in developing countries.

- The United States needs a clearer, more strategic vision of how to deploy its existing tools, how they work together, and how to put its partner countries at the center of this policy.

A Smarter Way to Engage

- The United States needs to better engage in trade and investments with developing countries. We must view developing countries as emerging or even emerged partners that desire a deeper relationship built around trade, investment, and economic growth.
- Recommendation 1: The United States needs to craft an international economic strategy that leverages existing tools and introduces a renewed development finance toolbox. The U.S. Congress has recently proposed a bipartisan bill requiring the president and future administrations to regularly produce and submit to Congress a "National Economic Security Strategy" to boost U.S. economic foundations that have been undermined by predatory economic practices by China. An international economic strategy to complement the proposed national one should not only be a response to Chinese competition, but a smarter way to integrate developing countries into the global economy.
- Recommendation 2: The United States needs to use its existing toolbox more effectively to participate more actively in commercial deals with developing countries. This is possible if the country leverages three important tools. First, the United States can introduce a more balanced approach to foreign aid spending and technical assistance based on increasing trade and investment policy abroad. Secondly, the United States should modernize and reform the EXIM Bank to make it more effective by placing a greater emphasis on financing small and medium-sized enterprises (SMEs) and new sectors that have not traditionally received ECA financing (i.e., services and ICT/digital sectors). Lastly, the United States must authorize a third wave of enterprise funds, complementing other development programs undertaken by OPIC, MCC, and USAID, to simulate private sector development abroad, leverage U.S. private sector expertise, and attract additional investment into developing countries.
- Recommendation 3: The United States needs a renewed "Development Finance ToolBox" to better serve the needs and aspirations of developing countries. A revamped toolbox could include the following: 1) introducing a "whole of government" approach in U.S. bilateral development institutions that incentivizes development agencies to collaborate with the U.S. private sector; 2) increasing commercial engagement from U.S. embassies in key locations; 3) a more aggressive use of bilateral government MOUs with associated financing, training, and other commercial support, and 4) creating new financing institutions such as the newly legislated United States International Development Finance Corporation (USIDFC) and a "U.S. Global Infrastructure Initiative" with added financing instruments.

1 | Introduction

The development landscape has dramatically changed in the past 25 years. A set of countries once considered “poor” or “third world” have become more prosperous, freer, and healthier.[1] These countries seek international economic engagement in the form of infrastructure investments, increased trade, and exchanges in science, technology, and innovation. As countries move up the prosperity ladder, they will need less foreign aid (i.e official development assistance – ODA) and demand more participation as equal partners in a diversified global economy.

Yet the way that the United States engages with these countries has not caught up to this new reality. As a result, the U.S. sphere of economic influence with developing countries has weakened. The United States is no longer *the* major player for developing countries when it comes to trade, investments, and financing. In 2006, the United States was the principal trade partner for close to 130 nations. Just ten years later, this number had dropped to 76.[2] China has taken the United States’ place and has become the top trading partner for 124 countries. In Africa, where a large share of the trade and investment opportunities lie, the United States has lost significant ground and is stepping away from the region.[3] In 2016, U.S. exports to Africa hit a 10-year low, with sub-Saharan Africa now accounting for only 0.9 percent of total U.S. exports.[4]

“Rather than looking at many developing countries as simply recipients of aid, the United States must look at them as emerging or even emerged partners who desire deeper relationships built around trade, investment, and economic growth.”[5] Many of these countries are existing or prospective U.S. allies and have strong consumer markets that U.S. companies can tap into. According to the American Academy of Diplomacy, ninety-five percent of the world’s consumers are located outside the United States, and some of these consumers would directly support businesses and job creation in the United States.[6]

The United States has a foreign assistance approach and toolbox that is outdated and has been reactive at best to the changes in the developing world. The United States must think more strategically about how to best engage the developing world, use foreign aid as a catalyst to attract private capital to these countries, and help level the playing field with other foreign players through anticorruption efforts, procurement training, and trade facilitation. The United States needs an international economic strategy to engage with prospering developing countries as true economic partners. The United States needs to regain its economic leadership in the world. If the United States does not revamp its economic strategy towards the developing world, 50 or so countries will go from fourth to fifth gear thanks not to U.S. but Chinese financing.

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[1] Daniel F. Runde, *A Tale of Two Paths: Divergence in Development* (Washington, DC: CSIS, February 2017), https://www.csis.org/analysis/tale-two-paths.
[2] Daniel F. Runde, *A Tale of Two Paths*.
[3] Judd Devermont, *The World Is Coming to Sub-Saharan Africa. Where Is the United States?* (Washington, DC: CSIS, August 2018), https://www.csis.org/analysis/world-coming-sub-saharan-africa-where-united-states.
[4] The President’s Advisory Council on Doing Business in Africa (PAC-DBIA), *Report on Top Issues U.S. Companies Face in Approaching, Competing, and Operating in African Markets* (Washington, DC: PAC-DBIA, November 29, 2017), https://www.trade.gov/pac-dbia/docs/PAC-DBIA%20Issues%20Report%20-%20Nov%202017.pdf.
[5] Daniel F. Runde, “Modernizing Development Finance,” (testimony presented before the United States Senate Committee on Foreign Relations, Washington, DC, May 10, 2018), https://www.foreign.senate.gov/hearings/modernizing-development-finance-051018.
[6] Estimated at 13 percent of U.S. gross domestic product (GDP) and 11.5 million U.S. jobs. American Academy of Diplomacy and the Una Chapman Cox Foundation, *Support for American Jobs: Part I: Requirements for Next-Generation Commercial Diplomacy Programs* (March 2016), 36, https://www.academyofdiplomacy.org/wp-content/uploads/2016/01/SupportForAmericanJobs.pdf.

For those countries moving up the development ladder, the "donor-recipient" relationship must transition to a "partnership" approach. The United States need a new way of engaging the developing world centered on the fundamental question of "what can developing countries and the United States do together?"[7]

This paper describes how the development landscape has changed in recent decades and how the United States has responded to this changed environment. It presents some initial recommendations on next steps that the United States needs to take to better engage in trade and investment with developing countries. This paper complements and builds upon prior CSIS publications on the topic.[8]

[7] Daniel F. Runde, Conor M. Savoy, Erol Yayboke, and Romina Bandura, "New Ideas for Development," (Washington, DC: CSIS, forthcoming).
[8] These CSIS publications include: Scott Miller and Daniel F. Runde, *A New Development Agenda: Trade, Investment, and Procurement* (Washington, DC: CSIS, February 2014), https://www.csis.org/analysis/new-development-agenda; Scott Miller and Daniel F. Runde, *Opportunities in Strengthening Trade Assistance* (Washington, DC: CSIS, February 2015), https://www.csis.org/analysis/opportunities-strengthening-trade-assistance; Runde, *A Tale of Two Paths*; Romina Bandura, *Rethinking Private Capital for Development* (Washington, DC: CSIS, December 2017), https://www.csis.org/analysis/rethinking-private-capital-development; Runde, Savoy, Yayboke, and Bandura, "New Ideas for Development".

2 | A Dramatically Changed Landscape in The Developing World

More Prosperous Developing Countries

The developing world has dramatically changed in the past 25 years and is fundamentally different than that of previous generations. A set of 50 or so countries, once considered "poor" or "third world" have become more prosperous, freer, and healthier.[9] Many are no longer recipients of foreign aid (i.e., Chile, South Korea, the Balkan States) and about 40 countries are on a path to become "developed" in the next 10 years.[10] At the same time, another set of countries still struggle with ongoing challenges including health pandemics, a lack of stable energy supplies, forced migration, international criminal activity, food insecurity, and massive unemployment—compromising global stability and threatening U.S. national security.[11] A set of 30 fragile states will require a more concerted international approach.[12]

> *"Today's developing world is fundamentally different than that of your grandparents."*
>
> – *Daniel F. Runde, A Tale of Two Paths*

Since the 1990s, poverty in the "developing world" has declined substantially with significant gains in health and education outcomes. The number of poor people worldwide has dropped by more than half from 1.85 billion in 1990 to 767 million in 2013.[13] In 1990, 1 in 3 people lived in extreme poverty, while currently only 1 in 10 are extremely poor.[14] Not only are people being lifted out of the most severe forms of poverty, they are entering the middle class. Driven in part by China and India's booming economies, in 2030, the global middle class will be nearly twice the size of the bottom class.[15] By 2050, Africa will be home to more than 2 billion people, half of whom will be in the global middle class.[16] By 2030, Asia will make up 66 percent of the global middle-class population and 59 percent of middle-class consumption.[17,18]

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9 Runde, *A Tale of Two Paths.*

10 See country listing in Scott Morris and Madeleine Gleave, "The World Bank at 75," *Center for Global Development,* Policy Paper no. 058 (March 2015), https://www.cgdev.org/publication/world-bank-75.

11 Runde, *A Tale of Two Paths*.

12 Organisation for Economic Co-operation and Development (OECD), *States of Fragility 2018* (Paris: OECD Publishing, 2018), https://doi.org/10.1787/9789264302075-en.

13 People who live on less than 1.90 USD per day. See World Bank, "Poverty," *World Bank Group*, http://www.worldbank.org/en/topic/poverty/overview#1.

14 World Bank, "Poverty."

15 Runde, *A Tale of Two Paths*.

16 PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets.*

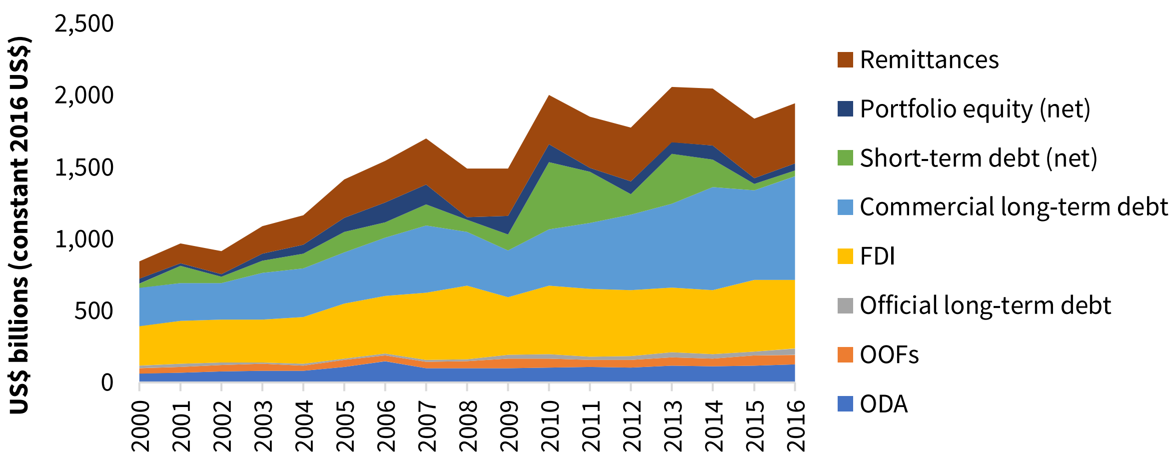
17 Homi Kharas, *The Unprecedented Expansion of the Global Middle Class: An Update* (Washington, DC: Brookings, February 2017), Working Paper no. 100, https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf.

18 Mario Pezzini, "An Emerging Middle Class," *OECD Observer,* 2012, http://oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html.

The proliferation of the middle-class in the developing world is largely due to rapid urbanization. For the first time, in 2015 more people lived in cities than rural settings worldwide. The urban population is expected to double from 3.7 billion in 2015 to more than 7.4 billion by 2050.[19] This means that of the expected 9.8 billion people worldwide by 2050, more than 75 percent will live in urban areas.[20] With such great urban population growth, more populous cities will strain to provide housing, social services, and jobs for their residents.

Those countries that are prospering have been able to tap into other sources of finance beyond the support provided by foreign aid. With growing remittances, ballooning international trade and investments, and more efficient "domestic resource mobilization" (taxes, savings, capital market activity), these developing countries now command more of their own resources to fund social safety net programs, development projects, and other social investments (Figures 1 and 2). As countries strengthen their collection of taxes and other sources of funding, they can increasingly function as nations free from foreign aid and are able to finance their needs via loans, direct investments, and guarantees.[21]

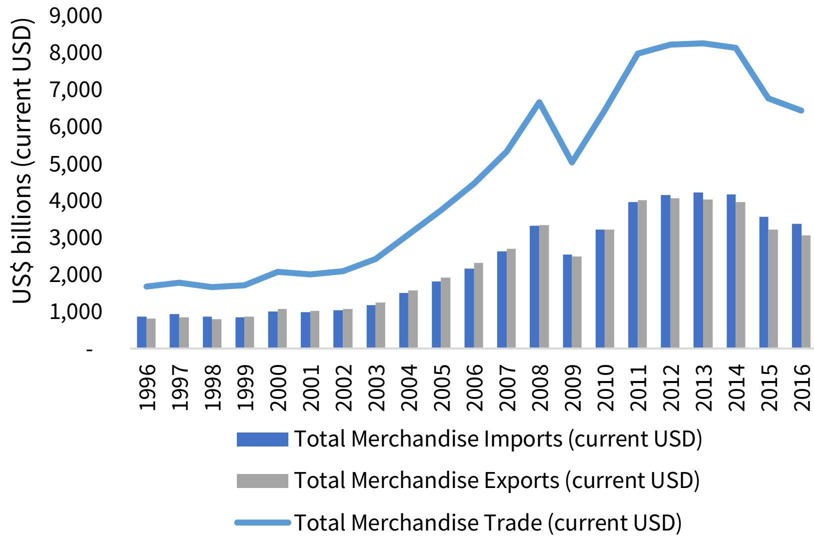
Figure 1: Sources of Development Finance



Source: Development Initiatives based on OECD DAC, UNCTAD and World Bank[22]

[19] Runde, *A Tale of Two Paths*.
[20] UN Department of Economic and Social Affairs, "World Population Projected to Reach 9.8 Billion in 2050, and 11.2 Billion in 2100" *United Nations,* June 21, 2017, https://www.un.org/development/desa/en/news/population/world-population-prospects-2017.html.
[21] Runde, *A Tale of Two Paths*.
[22] "International Investment Agreements Navigator," UNCTAD, http://investmentpolicyhub.unctad.org/IIA/CountryBits/223; "World Bank Indicators: Trade in Developing Countries (excluding China) from 1996-2016), World Bank, http://databank.worldbank.org/data/source/world-development-indicators.

Figure 2: Trade Among Developing Countries (excluding China)



Source: World Bank Development Indicators[23]

Much of the significant increase in prosperity can be attributed to the increasing role of the private sector along with more private sources of capital flowing to developing countries' economies. In developing countries, the private sector is responsible for 90 percent of existing jobs.[24] Foreign direct investment (FDI) to developing countries (i.e., investment from multinational corporations) has surpassed foreign aid by a factor of five to one.[25,26] Since 2012, developing countries have attracted fifty percent of the FDI flows.[27,28]

Waning U.S. Economic Influence in the Developing World

As some developing countries have prospered, their center of economic influence has shifted: the United States is no longer *the* major player when it comes to trade, investment, and financing. In 2006, the United States was the principal trade partner for close to 130 nations. However, this number dropped to 76 in 2016 (Figures 3 and 4).[29] In Africa, where large trade and investment opportunities lie, the United States has lost significant ground and is stepping away from the region.[30] In 2016, U.S. exports to Africa hit a 10-year low and sub-Saharan Africa now accounts for only 0.9 percent of our exports.[31]

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[23] "World Bank Indicators: Trade in Developing Countries (excluding China) from 1996-2016), World Bank, http://databank.worldbank.org/data/source/world-development-indicators.

[24] World Bank, *World Development Report 2013: Jobs* (Washington, DC: World Bank Group, 2012), https://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf.

[25] See Padma Mallampally and Karl P. Sauvant, "Foreign Direct Investment in Developing Countries," *Finance & Development* 36, no. 1 (March 1999), http://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm.

[26] Conor Savoy, Paddy Carter, and Alberto Lemma, *Development Finance Institutions Come of Age: Policy Engagement, Impact, and New Directions* (Washington, DC: CSIS, October 2016), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161021_Savoy_DFI_Web_Rev.pdf.

[27] Runde, *A Tale of Two Paths*.

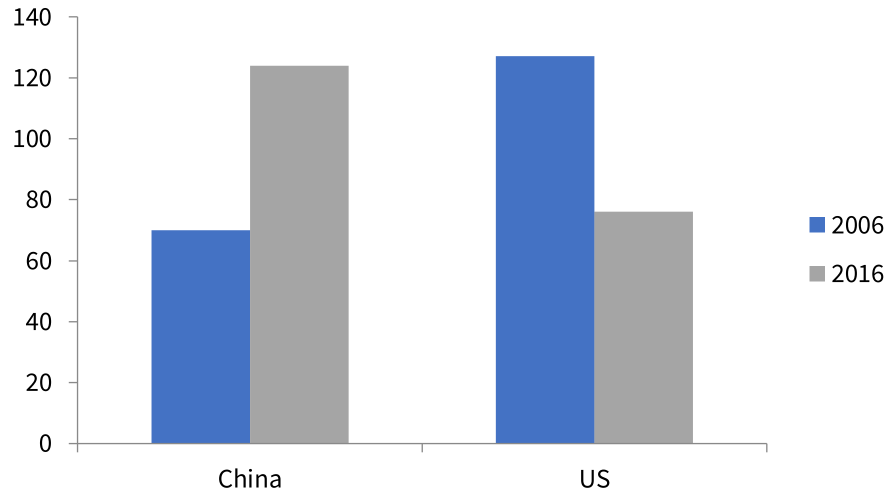
[28] UN Conference on Trade and Development (UNCTAD), *World Investment Report 2018: Investor Report: Policy Challenge* (Geneva: UNCTAD, 2018), http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

[29] Runde, *A Tale of Two Paths*.

[30] Devermont, *The World Is Coming to Sub-Saharan Africa*.

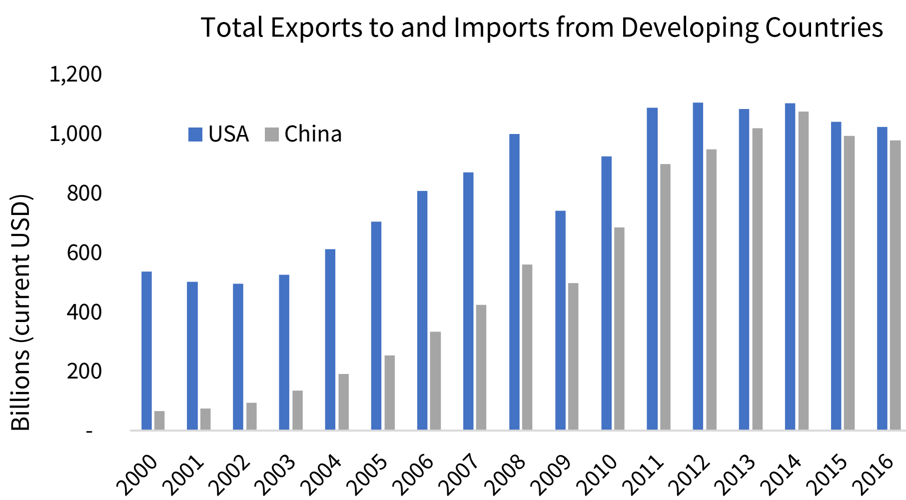
[31] PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets*.

Figure 3: The Number of Top Trading Partners Has Reversed



Source: Runde[32]

Figure 4: Developing Countries' Trade with the United States and China



Source: The Observatory of Economic Complexity[33]

The theory of change is that as countries move up the prosperity ladder, they need less foreign aid and want to be treated as equal economic partners of a diversified global economy. These countries seek international engagement in the form of infrastructure investments, increased trade, and exchanges in science, technology, and innovation.[34] Other countries are currently practicing commercial diplomacy in the developing world in more effective ways than the United States (Box 1). Foreign players are financing

[32] Runde, *A Tale of Two Paths*, 5.
[33] "Where Does the United States Export To? (2016)," The Observatory of Economic Complexity, http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/usa/show/all/2016/.
[34] Runde, Savoy, Yayboke, and Bandura, "New Ideas for Development"

infrastructure, signing trade agreements, negotiating government to government (bilateral) MOUs, and providing loans in response to developing countries' demands.

BOX 1: COMMERCIAL DIPLOMACY – LESSONS LEARNED FROM COMPETITOR GOVERNMENTS[35]

- Comprehensive national strategies developed with the private sector to promote exports and attract investments supported by financial and technical tools.
- Flexibility and speed to respond to national interests.
- Strong commitments from heads of state and senior-level politicians building on home country competitive strengths.
- Solid financial and marketing instruments including export finance, project finance, technical assistance grants, and regulatory and standards cooperation.
- Strong support from embassies.

The United States is now competing with other nations for commercial deals that it would easily have secured in the past. Developing nations are now able to partner with Japan, Germany, Denmark, the Netherlands, the United Kingdom, and most often China to meet their specific political, social, and economic needs.[36] Furthermore, other emerging economies like Brazil, Turkey, and India are also active in the developing world. These countries are filling this trade and investment void, jeopardizing U.S. influence in terms of our democratic values, security cooperation, and U.S. technical standards. Countries are using different commercial instruments to both "do development" and win commercial deals (Box 2). Recognizing human assets and economic opportunities in Africa, in 2017 Germany embarked on a new partnership with the continent: the "Marshall Plan with Africa" brings together economic, financial, trade, security, legal, environmental, and health policy.[37,38] This new Marshall Plan recognizes the need for a renewed partnership for development that is based on mutual interests and places developing countries in leadership roles.

> *"Africa has a chance to leapfrog to a resource-conserving infrastructure for the 21st century. This is an opportunity for German companies."*
>
> *- Speech by Federal Minister Muller at the German-African Business Summit, 9 February 2017 in Nairobi*

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[35] American Academy of Diplomacy and Una Chapman Cox Foundation, *Support for American Jobs - Part II*, 9.
[36] PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets.*
[37] Federal Ministry for Economic Cooperation and Development of Germany, "Marshall Plan with Africa," *BMZ,* https://www.bmz.de/en/countries_regions/marshall_plan_with_africa/contents/index.html.
[38] Federal Minister Muller, "The Cornerstones of a Marshall Plan with Africa – A New Partnership for Development, Peace and a Better Future" (speech, German-African Business Summit, Nairobi, February 9, 2017), BMZ, https://www.bmz.de/en/press/speeches/Mueller/2017/february/170209_rede_german_african_summit.html.

Japan, China, the Netherlands, and India are also heavily engaged in Africa using a combination of tools that aim at meeting the development needs of countries and winning opportunities for their own companies. Advocacy from heads of states and trade missions, as well as financing and regulatory mechanisms, are some of the ways they have engaged with the developing world to create advantages for their private sectors.[39] Developed countries have also overtaken the United States in overseas workforce training in response to companies' needs—both on the bilateral and multilateral fronts.[40]

BOX 2: EXAMPLES OF COMMERCIAL DIPLOMACY FROM FOREIGN GOVERNMENTS

- The "Accelerating Wind Power Generation in Ethiopia" (AWPGE) program was signed by the government of Ethiopia and the Danish Embassy in Ethiopia on December 3, 2016. This joint Danish-Ethiopian cooperation on climate and energy occurred because of a mutual commitment to decoupling carbon emissions from economic growth.[41]
- In January 2017, the German government together with industry associations launched the "Industrie 4.0" initiative that aims to strengthen mid-sized capital goods manufacturing companies and make Germany the world leader in advanced manufacturing solutions. Through concerted German lobbying efforts, trade missions, and industrial fairs, Germany is marketing its standards, business models, and technology. Countries like China, India, and Saudi Arabia will now use German strategies for the next phase of their industrialization plans.[42]
- The Netherlands managed to win port, shipbuilding, and waterway-dredging projects in Bangladesh over the United States, despite higher prices for projects, by utilizing frequent high-level meetings with the Delta Coalition and commercially-oriented technical assistance programs.[43]
- The Japanese International Cooperation Agency (JICA) has demonstrated a strong commitment to helping Japanese firms win commercial projects overseas; JICA has even gone so far as to threaten to pull funding if a U.S. supplier were chosen over a Japanese one.[44]

While Japan and many European countries are increasingly influential and sophisticated in their approaches, China has become the United States' greatest competitor in global development, and the second-large st economy in the world. Just 15 years ago, China's GDP was $1.7 trillion (2003); it currently stands at $14 trillion (as of 2018).[45] China now comprises 13 percent of the global export market and headquarters 12 of the world's most valuable listed companies.[46]

China's prosperity has enabled it to become the go-to nation for development assistance and trade deals in developing countries. In Africa, for example, the Export-Import Bank of China supported approximately $3

[39] PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets.*
[40] Ibid.
[41] Danish Energy Agency, *The joint Danish-Ethiopian cooperation on climate and energy*, (Danida, Denmark: DMFA, 2016), https://ens.dk/sites/ens.dk/files/Globalcooperation/ethiopia_cooperation.pdf.
[42] American Academy of Diplomacy, https://www.academyofdiplomacy.org/wp-content/uploads/2016/01/Support-For-American-Jobs-II.pdf
[43] Ibid.
[44] Ibid.
[45] See "China," World Bank Group, https://data.worldbank.org/country/china and "GDP, Current Prices (billions of US dollars)," International Monetary Fund (IMF), http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD.
[46] The Economist Leaders, "How the West Got China Wrong," *The Economist,* March 1, 2018, https://www.economist.com/leaders/2018/03/01/how-the-west-got-china-wrong.

billion in export credits and nearly $11 billion in concessional and semi-concessional loans in recent years.[47] Through this more influential role in the world's economy and development arena, China has profited monetarily and has also spread its influence to promote the notion that it is a lasting "partner" to these developing countries.

> *"If the U.S. government does not find a way to reverse this trend and position American firms for more streamlined operation, it will be Chinese technology, equipment, and standards that are used to close the infrastructure gap in Africa."*
>
> \- *PAC-DBIA Nov 2017*

China has recognized the economic potential of sub-Saharan Africa, Latin America, South Asia, and Southeast Asia and has built strong economic and development relationships within these regions to facilitate greater engagement. It has set up its own multilateral lending institutions, the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), to spread more influence across the developing world. China's Belt and Road Initiative (BRI) aims to connect Chinese trade with more than 70 countries and will include between $1 trillion and $8 trillion in investment.[48] Signees are required to accept China-based dispute resolution.[49] The Chinese government has also pledged $1.6 trillion in investments in Africa over the next 10 years. Africa will likely spend between $50 and $90 billion on infrastructure per year and Chinese contractors consistently win more than 50 percent of projects. [50]

Turning Global Economic Challenges into Opportunities

Although the United States remains the world's largest foreign aid provider (according to the OECD/DAC, roughly $34 billion each year),[51] foreign assistance represents only 1 percent of U.S. federal spending, while in 1965 it represented 2.5 percent.[52] In 2015, 193 nations including the United States signed the Addis Ababa Action Agenda proposing a comprehensive set of policy actions and more than 100 concrete measures to help implement the UN's Sustainable Development Goals (SDGs).[53] The Action Agenda recognized that foreign aid is shifting towards a "catalytic" role, as aid now functions primarily as a mechanism to mobilize additional resources from the private sector and local governments (in the form of

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[47] PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets.*
[48] Jonathan E. Hillman, "How Big is China's Belt and Road?" *CSIS,* April 3, 2018, https://www.csis.org/analysis/how-big-chinas-belt-and-road; Christopher K. Johnson, *President Xi Jinping's "Belt and Road" Initiative: A Practical Assessment of the Chinese Communist Party's Roadmap for China's Global Resurgence* (Washington, DC: CSIS, March 2016), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf.
[49] PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets.*
[50] Ibid.
[51] "Statistics on Resource Flows to Developing Countries," OECD, http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm.
[52] The Foundation for AIDS Research (amfAR), *The Evidence on U.S. Investments in Foreign Aid* (amfAR, March 2013), http://www.amfar.org/uploadedFiles/_amfarorg/Articles/On_The_Hill/2013/IB%20Foreign%20Aid.pdf.
[53] United Nations, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)* (New York: United Nations, July 2015), http://www.un.org/esa/ffd/publications/aaaa-outcome.html.

tax collection and savings).[54] The amount of global foreign aid is dwarfed by other financial resources such as those originating from global and local capital markets, international trade, philanthropy, foreign direct investment, taxes, and remittances.[55]

Foreign assistance still plays a critical role in the poorest and most fragile countries that lack state capacity. These fragile states pose security challenges to the United States and other nations, where terrorism, forced migration, pandemics, food insecurity, and international criminal activity are rampant. These countries still require foreign assistance in part because they have not reaped the same benefits from their domestic resources as others. However, for another set of developing countries—those middle-income nations that are on a path to prosperity—the emphasis on large-scale, multiyear aid projects should instead evolve to focus on trade, investment, and economic engagement with the United States. This could lead to strengthened partnerships, new international allies, increased global stability, and additional markets for U.S. goods and services so that the United States can regain its place as the world's premier leader in international development.[56] The United States offers a better alternative to China as U.S. engagement does not seek to be extractive. The United States cares about bringing in soft power institutions from civil society, the media, and other stakeholders in these countries.

Developing countries are facing a set of economic challenges where the United States (i.e., the U.S. private sector and U.S. aid and financing agencies) can play a larger role, turning these challenges into development and commercial opportunities. These economic challenges include large infrastructure gaps, unemployable youth, and a growing (global) consumer market.

One of the most pressing hurdles for developing countries relates to infrastructure. The rapid pace of urbanization means that cities will be challenged in their ability to meet infrastructure, social services, and job needs. Today there are 1.1 billion people who live without electricity, close to 3 billion without clean cooking facilities, 1 billion without access to safe water, and 2.3 billion without access to improved sanitation. [57,58] Massive financial resources and technical expertise are needed to meet these infrastructure deficits. Estimates from the Global Infrastructure Hub point that by 2030, infrastructure investment must increase from 3 percent of global GDP to 3.7 percent, at a total cost of $97 trillion.[59] McKinsey & Company has called for $3.7 trillion of annual investments in network infrastructure (roads, railways, ports, airports, power, water, and telecoms) until 2035 to support the world's growing economies.[60] World Bank estimates suggest that sub-Saharan Africa should spend $93 billion annually for the next 10 years to shrink its infrastructure gap.[61]

A second economic challenge that developing countries are facing is to create meaningful employment opportunities for a growing population. The World Bank estimates that 600 million jobs must be created over the next 15 years to increase employment rates and absorb the number of youth projected to enter

[54] United Nations, *Addis Ababa Action Agenda*.
[55] Runde, *A Tale of Two Paths*.
[56] Runde, *A Tale of Two Paths*.
[57] "Energy Access," International Energy Agency (IEA), https://www.iea.org/energyaccess/.
[58] "The Water Crisis," Water.org, https://water.org/our-impact/water-crisis/.
[59] "Global Infrastructure Outlook," Global Infrastructure Hub, https://outlook.gihub.org/.
[60] Jonathan Woetzel, Nicklas Garemo, Jan Mischke, Priyanka Kamra, and Robert Palter, "Bridging Infrastructure Gaps: Has the World Made Progress?" *McKinsey Global Institute,* October 2017, https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/bridging-infrastructure-gaps-has-the-world-made-progress.
[61] PAC-DBIA, *Report on Top Issues U.S. Companies Face in African Markets.*

the labor market.[62] Developing countries lack quality jobs and have major gender imbalances in their labor markets. A large percentage of the young are "unemployable" or idle. A lack of jobs in developing countries leads to negative spillovers in the form of migration, instability, fewer customers for U.S. goods, and weaker allies. On the other hand, if the United States is willing to help developing countries prepare their workforce and create the conditions necessary for job growth, the country (and the global economy at large) will experience positive effects, including an expansion of global markets for U.S. goods and services and an increase in the income levels and purchasing power of consumers worldwide. This is unlikely to cause displacement of U.S. jobs.[63]

Finally, a massive consumer class is emerging, particularly in Asia and Africa, that is demanding new products and services. By 2030, the United Nations estimates that there will be 1.3 billion youth worldwide mostly in in Asia and Africa.[64,65] These future consumers represent an economic opportunity for U.S. companies to sell their goods and services and support job creation in the United States.

[62] "Jobs and Development," World Bank, http://www.worldbank.org/en/topic/jobsanddevelopment/overview.
[63] Daniel F. Runde, Romina Bandura, and MacKenzie Hammond, *The Future of Global Stability: The World of Work in Developing Countries* (Washington, DC: CSIS, October 19, 2018).
[64] Population Division of UNDESA, "Youth Population Trend and Sustainable Development," *Population Facts* 2015 (1), May 2015, http://www.un.org/esa/socdev/documents/youth/fact-sheets/YouthPOP.pdf.
[65] UN Secretariat Department of Economic and Social Affairs, *Population 2030: Demographic Challenges and Opportunities for Sustainable Development Planning* (New York: United Nations, 2015), http://www.un.org/en/development/desa/population/publications/pdf/trends/Population2030.pdf.

3 | An Inadequate U.S. Response to the Changed Development Landscape

As competition has increased in the international development landscape, the U.S. response has been reactive at best. The U.S. development toolkit is incomplete and not strategic enough on four grounds:

1. A focus on health and food insecurity issues, to the detriment of trade and investment policies.
2. A passive response to China's rise, focused on making China a "responsible stakeholder."
3. A lack of strategic focus and a subpar "partnership" approach.
4. An insufficient emphasis on fighting corruption and upholding the rule of law in developing countries.

Re-Focusing Foreign Aid toward Trade and Investments

Past administrations have prioritized development efforts in health, food security, agricultural production, and basic education.[66] President George W. Bush's (2001-2009) priorities in international development focused on human rights and pandemics. During his presidency, President Bush created the International Mother and Child HIV Prevention Initiative, the $15 billion President's Emergency Plan for AIDS Relief (PEPFAR), and the $1.2 billion President's Malaria Initiative.[67] President Barack Obama (2009-2017) launched the Feed the Future Initiative (FTF) in 2010. Managed by USAID, this food security program has a budget of $3.5 billion and brings together businesses, universities, NGOs, and farmers to invest in agriculture, resilience, and nutrition so food insecurity can be minimized around the world. It focuses on 19 countries in Africa, Asia, and Latin America and the Caribbean.[68]

There is no denying that investing in health, agriculture, and education has strong development impacts that are meritorious. But too heavy a focus on these issues has created an imbalance in terms of funding and technical capacity in our foreign aid architecture. As a result, only 5 percent of our foreign aid goes to economic issues while 35 percent is allocated toward education, health, and population.[69] USAID—the leading development institution for the United States—currently spends more than 40 percent of its budget ($19 billion) on health, basic education, and food security, while trade policy receives less than 1 percent of the funding.[70]

More money and technical assistance could be allocated toward strengthening developing countries' capacity to participate more actively in global trade and help them attract added private investment into their economies. For example, corruption and the absence of rule of law are prime inhibitors of foreign direct investment in developing countries. A number of U.S. agencies and accompanying initiatives help developing countries improve their investment climates, increase their participation in global trade, and

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[66] Miller and Runde, *A New Development Agenda*.
[67] Gary L. Gregg II, "George W. Bush: Foreign Affairs," University of Virginia Miller Center, https://millercenter.org/president/gwbush/foreign-affairs.
[68] "Feed the Future," US Agency for International Development (USAID), https://www.usaid.gov/what-we-do/agriculture-and-food-security/increasing-food-security-through-feed-future.
[69] OECD – DAC, "Gross Bilateral ODA, 2015-2016 Average," *Tableau*, https://public.tableau.com/views/AidAtAGlance/DACmembers?:embed=y&:display_count=no?&:showVizHome=no#1; "Map of Foreign Assistance Worldwide," U.S. Department of State, https://www.foreignassistance.gov/explore.
[70] "Dollars to Results: USAID Investments and Illustrative Reports," USAID, https://results.usaid.gov/results.

strengthen their governance and procurement processes. At the same time, these initiatives are designed to respond to U.S. national interests (Box 3).

BOX 3: THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) AND EXPORT-IMPORT BANK OF THE UNITED STATES (EXIM)

Alongside the MCC, the Overseas Private Investment Corporation (OPIC) and Export-Import Bank of the United States (EXIM) have also supported U.S. business in trade and investment deals abroad. Since 1971, OPIC has supported U.S. investors, financial institutions, and exporters by providing loans, loan guarantees, and political risk insurance for conducting business in countries with important development challenges.[71] To date, OPIC has financed more than $200 billion in investment in over 4,000 projects.[72] OPIC will invest $1 billion over the next three years in a new initiative: Connect Africa. The initiative will support projects in telecommunications and internet access, value chains, connecting producers with consumers, and basic infrastructure such as roads, railways, ports, and airports.[73]

Since 1934, the Export-Import Bank of the United States (EXIM) has been the U.S. export credit agency, helping U.S. exporters obtain financing in difficult country contexts. EXIM covers the credit and country risks that the private sector is unable or unwilling to accept.[74] Some of the main financing tools offered to U.S. exporters include: backing exporters' loans from private banks to finance materials and labor; protecting exporters against nonpayment risk by foreign customers; offering support for U.S. companies selling services overseas; and providing financing to foreign buyers for project, transportation, and U.S. export sales financing.[75] Since 2009, it has supported 1.4 million private-sector U.S. jobs and has returned nearly $3.8 billion to the U.S. Treasury.[76] The majority of EXIM's transactions in 2016 were to U.S. small businesses.[77]

The creation of a new aid agency, the Millennium Challenge Corporation (MCC) in 2004 is a good example of an initiative focused on expanding trade and investments in developing countries through a partnership approach. The MCC adopted an innovative model that provides grants to high-performing countries (i.e., governments with solid governance track records) with programs mainly driven by the host country.[78] However, the MCC never became the $5-billion-a-year agency that President George W. Bush envisioned when he launched it.[79] With a budget of $800-900 million per year, the MCC has made $11 billion in investments, mainly in infrastructure, with close to 70 percent taking place in Africa (Box 4).[80] If the

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71 Overseas Private Investment Corporation (OPIC), www.opic.gov; "Company Overview of OPIC," *Bloomberg,* https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=3062356; OECD, *Impact Investing, OPIC* (Paris: OECD, 2016), https://www.oecd.org/dac/peer-reviews/Overseas-Private-Investment-Corporation.pdf.
72 "Who We Are," OPIC, https://www.opic.gov/who-we-are/faqs.
73 "Connect Africa," OPIC, https://www.opic.gov/opic-in-action/connect-africa.
74 "History of EXIM," Export-Import Bank of the United States (EXIM), https://www.exim.gov/about/history-0.
75 EXIM, *Export Finance Solutions to Increase Sales for U.S. Businesses* (Washington, DC: EXIM, 2016), https://www.exim.gov/sites/default/files/managed-documents/EXIM-Brochure_NOV2016-inhouse.pdf.
76 EXIM, *Fiscal Year 2016 Annual Report* (Washington, DC: EXIM, 2017), https://www.exim.gov/sites/default/files/reports/annual/EXIM-2016-Annual-Report.pdf.
77 "About Us," EXIM, https://www.exim.gov/about/facts-about-ex-im-bank.
78 "About MCC," Millennium Challenge Corporation (MCC), https://www.mcc.gov/about.
79 John Norris, "President Bush and His Development Legacy," *Devex,* July 5, 2016, https://www.devex.com/news/president-bush-and-his-development-legacy-87725.
80 "Congressional Budget Justification, FY 2018: Executive Summary," MCC, https://www.mcc.gov/resources/story/story-cbj-fy2018-executive-summary.

MCC's budget had been the proposed $5 billion per year for the past 14 years, that $11 billion figure should have risen to $70 billion in potential investments.

The MCC has also been one of the leading agencies in trade capacity building (TCB), that is, helping developing countries negotiate and implement trade agreements, as well as assisting them with better engagement in global trade. TCB involves assistance in the form of technical advice, training, and policy reforms.[81] In 2016, U.S. government agencies provided close to $1.2 billion in TCB activities across 134 developing countries, mainly in Africa.[82] However, TCB remains scattered across more than 20 agencies (Box 5) and funding towards this endeavor pales in comparison to other development areas.[83]

[81] Miller and Runde, *Opportunities in Strengthening Trade Assistance.*
[82] Ayelet Haran, "Tracking U.S. Capacity Building," *Trade Vistas CSIS* (blog), August 16, 2018, https://tradevistas.csis.org/tracking-u-s-trade-capacity-building/.
[83] Ibid.

BOX 4: U.S. ECONOMIC ENGAGEMENT WITH AFRICA

Successive U.S. administrations have led economic initiatives to better engage with Africa. One of the earliest efforts to expand U.S. trade and investment with sub-Saharan Africa was the 2000 African Growth and Opportunity Act (AGOA). AGOA represents an important mechanism for sub-Saharan African producers to export a variety of products to the United States duty-free.[84] In the past, sub-Saharan African countries could only receive duty-free benefits if they met the conditions of a Generalized System of Preferences (GSP) program. Currently, between 6,000 and 7,000 products from sub-Saharan African countries are free of import duties upon arrival to the United States. Although AGOA has been renewed until 2025, its impact has received mixed reviews.[85,86]

The most recent engagement is "Power Africa," a program launched in July 2013 in response to Africa's challenges with access to electricity.[87,88] Different actors pledged to add more than 30,000 megawatts (MW) of clean electricity generation capacity and 60 million new home and business connections.[89] The African Development Bank Group (AfDB) is the primary partner of USAID in the Power Africa initiative, and the two agencies have united to attract local private capital for investment in energy infrastructure.[90] To date, 90 transactions and 7,492 megawatts have financially closed.[91]

Moreover, in 2015, the President's Advisory Council for Doing Business in Africa (PAC-DBIA) was set up, consisting of a group of U.S. small, medium, and large companies from diverse industries and economic sectors.[92] PAC-DBIA "advises the president, through the Secretary of Commerce, on ways to strengthen commercial engagement between the United States and Africa."[93] This important group has met eight times in the last three years and has issued a series of reports and recommendations to improve U.S. commercial reach in Africa.

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84 "About AGOA," African Growth and Opportunity Act (AGOA), https://agoa.info/about-agoa.html.
85 Office of the US Trade Representative (USTR), "African Growth and Opportunity Act (AGOA)," *Executive Office of the US President,* https://ustr.gov/issue-areas/trade-development/preference-programs/african-growth-and-opportunity-act-agoa.
86 Andrea Durkin, *Grow Markets, Fight Hunger: A Food Security Framework for US-Africa Trade Relations* (Chicago, IL: Chicago Council on Global Affairs, March 2015), https://www.thechicagocouncil.org/sites/default/files/Global%20Ag%20Trade%20Paper_v5_1.pdf.
87 "About Us," USAID Power Africa, https://www.usaid.gov/powerafrica/aboutus.
88 "Power Africa Initiative," African Development Bank (AfDB), https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/power-africa-initiative/.
89 "About Us," USAID Power Africa.
90 "Power Africa Initiative," AfDB.
91 "About Us," USAID Power Africa.
92 "President's Advisory Council on Doing Business in Africa," U.S. International Trade Administration (ITA), U.S. Department of Commerce, https://www.trade.gov/pac-dbia/index.asp.
93 Ibid.

BOX 5: MAPPING TRADE POLICY IN U.S. AGENCIES[94]

1. Department of Agriculture - Foreign Agricultural Service
2. Department of Commerce - Bureau of Industry and Security
3. Department of Commerce - International Trade Administration
4. Department of Commerce - U.S. Commercial Service
5. Department of Energy - Policy and International Affairs
6. Department of Homeland Security - Customs and Border Protection
7. Department of Labor - Trade Adjustment Assistance
8. Department of State - Bilateral Trade Affairs
9. Department of State - Directorate of Defense Trade Controls
10. Department of State - Multilateral Trade and Agricultural Affairs
11. Department of State - Intellectual Property Enforcement
12. Department of the Treasury - International
13. Department of the Treasury - Office of Foreign Asset Controls
14. Environmental Protection Agency - International Programs
15. Environmental Protection Agency - Climate Change
16. Export-Import Bank
17. Food and Drug Administration - Office of International Programs
18. Overseas Private Investment Corporation
19. Small Business Administration - International Trade
20. U.S. Agency for International Development (USAID)
21. U.S. International Trade Commission
22. U.S. Trade and Development Agency (USTDA)

The World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) is a mechanism that can benefit developing countries through increased global trade and benefit the United States through an expansion of its commercial reach. The TFA is a multilateral trade agreement designed to "unclog the pipes" at customs and borders, reducing the cumbersome procedures that countries often set for trade transactions.[95] The TFA can create substantial benefits in terms of better infrastructure, export diversification, and decreased corruption. The agreement entered into force on February 22, 2017 and is estimated to produce up to $1 trillion in global export gains annually. The TFA is also forecasted to create 20 million jobs worldwide.[96,97]

The United States has accepted the TFA, providing on average $119 million in assistance during the 2010-2016 period according to the OECD.[98] USAID is the agency tasked with implementing the TFA through the

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[94] "U.S. Government Trade Agencies," Office of the United States Trade Representative, https://ustr.gov/about-us/trade-toolbox/us-government-trade-agencies.
[95] Daniel F. Runde, "Fixing Trade Facilitation: The Trillion-Dollar Development Windfall," *CSIS,* March 24, 2014, https://www.csis.org/analysis/fixing-trade-facilitation-trillion-dollar-development-windfall.
[96] World Trade Organization (WTO), "WTO's Trade Facilitation Agreement Enters into Force," *WTO News*, February 22, 2017, https://www.wto.org/english/news_e/news17_e/fac_31jan17_e.htm.
[97] WTO, *World Trade Report 2015* (Geneva: WTO, 2015), https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf.
[98] OECD CRS database, Trade facilitation, disbursed: https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

Global Alliance for Trade Facilitation, a public-private partnership of international organizations, governments, and businesses. The Global Alliance for Trade Facilitation is led by the Center for International Private Enterprise, the International Chamber of Commerce, and the World Economic Forum, in cooperation with Gesellschaft für Internationale Zusammenarbeit. It is funded by the governments of the United States, Canada, the United Kingdom, Australia, and Germany.[99]

The TFA is an opportunity for the United States to lead on global trade issues and help developing countries follow traditional trade rules. Increased trade not only helps developing countries grow, but also creates new export markets for the United States to tap into.[100] As a leading food exporter, U.S. agriculture producers can greatly benefit by exploring new agricultural markets in Latin America and sub-Saharan Africa. Eighty percent of U.S. agricultural exports are concentrated in East Asia, Canada, and Mexico.[101] With more consumers buying U.S. goods and by helping reduce red tape for U.S. imports, the agreement is good for the U.S. economy and consumers abroad. Moreover, according to WTO estimates, executing the TFA will have modest costs relative to the future gains.[102]

A Passive Response to Competition from China

The past three administrations' response to China's economic rise has been, for the most part, passive. The lynchpin of U.S. strategy has been making China a "responsible stakeholder" in the international system.[103] Successive administrations have tried to balance domestic expectations with international relations—remaining overly optimistic about a number of political and economic factors in China. This included balancing criticisms of Chinese human rights abuses, for example, with the need to involve China in the international economic system. In 2001, China entered the World Trade Organization (WTO), the result of an effort to draw the country into the international community.[104,105] The steep increase in demand and domestic production made it necessary for China to seek out resources, inputs, and markets for their exports. The state and state-run enterprises engaged in a top-down strategy to invest abroad in order to ensure access to raw materials and transportation links, export its excess labor capacity and temper slowing economic growth.

This opening has allowed China to emerge as a major international development financier but with little accountability.[106,107] As *The Economist* describes, the hope of the West was that by bringing China into the global economic order, the country would become a more market-friendly economy and democratic in the end. However, this vision has not materialized. In March 2018, China eliminated term limits for its

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[99] "The Alliance," Global Alliance for Trade Facilitation, https://www.tradefacilitation.org/who-we-are/about-us/.
[100] See Daniel F. Runde, "The Clock Has Started on TFA Implementation," *CSIS,* July 17, 2017, https://www.csis.org/analysis/clock-has-started-tfa-implementation; Daniel F. Runde, "Implementing the Forthcoming WTO Trade Facilitation Agreement," *CSIS,* September 17, 2014, https://www.csis.org/analysis/implementing-forthcoming-wto-trade-facilitation-agreement-0, and Daniel F. Runde, "Fixing Trade Facilitation: The Trillion-Dollar Development Windfall," *CSIS,* March 24, 2014, https://www.csis.org/analysis/fixing-trade-facilitation-trillion-dollar-development-windfall.
[101] Andrea Durkin, *Growing Markets, Growing Incomes: Leveraging Trade Facilitation for Farmers* (Chicago, IL: Chicago Council on Global Affairs, March 2017), https://www.thechicagocouncil.org/sites/default/files/leveraging_trade_facilitation_farmers_march17.pdf.
[102] WTO, *World Trade Report 2015.*
[103] Robert B. Zoellick, "Whither China: From Membership to Responsibility?" (speech, National Committee on U.S.-China Relations, New York, September 21, 2005), U.S. Department of State Archive, https://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm.
[104] Andy Rothman, "China's Accession to WTO Has Been a Boon, Not an Error," *Financial Times,* February 15, 2018, https://www.ft.com/content/9ebf9e36-1271-11e8-940e-08320fc2a277.
[105] Robert B. Zoellick, "Whither China?"
[106] Michael Fullilove, "Do We Really Want China to Be a Responsible Stakeholder in Global Affairs?" Brookings, December 3, 2010, https://www.brookings.edu/opinions/do-we-really-want-china-to-be-a-responsible-stakeholder-in-global-affairs/.
[107] Runde, Savoy, Yayboke, and Bandura, "New Ideas for Development," (Washington, DC: CSIS, forthcoming).

president, setting Xi Jinping up to be president for life, and increasing his hold on power.[108] The recent "Made in China 2025" plan to upgrade the whole of Chinese industry suggests that China will maintain its heavily state-guided direction for years to come. Among its goals, the plan aims to make manufacturing more efficient and integrated and intends to raise the domestic content of core components and materials to 40 percent by 2020 and 70 percent by 2025.[109]

Recent administrations have used bilateral, global, and regional approaches to respond to China's engagement with mixed results.[110] Under President Obama, a push was made through the Trans-Pacific Partnership (TPP) to "tie Pacific nations more closely to the United States than to China."[111] Under the Obama Administration, the United States also tried to convince major allies not to join China's AIIB, without success.

President Trump's "America First" foreign policy aims to adjust U.S. trade policies and military burden-sharing with U.S. allies to more equitable levels.[112] In particular, the administration is concerned about China and Russia's revisionist administrations.[113] In January 2018, the Trump administration complained about China being admitted to the WTO, since it failed to achieve significant political and economic structural reforms.[114,115] The Trump administration has chosen a more confrontational approach than previous administrations, calling for $200 billion in tariffs against the Chinese to make up for a growing trade deficit with China.[116,117] Although the current administration has recognized China's growing influence, starting a trade war is probably not the right response to China's uncompetitive trade practices. These actions are already prompting retaliatory measures by China and may lead to the United States losing many markets to other competitors for years to come.

A Partnership with Developing Countries

U.S. allies and competitors are seeking economic engagement based on partnerships with developing countries, and the United States needs to recognize that its development paradigm needs to shift. Foreign governments and corporations have recognized the progress taking place in developing countries and see the needs that these countries have. Foreign companies are seeing opportunities to make economic gains while at the same time helping these countries meet their developing needs: a win-win for both. For

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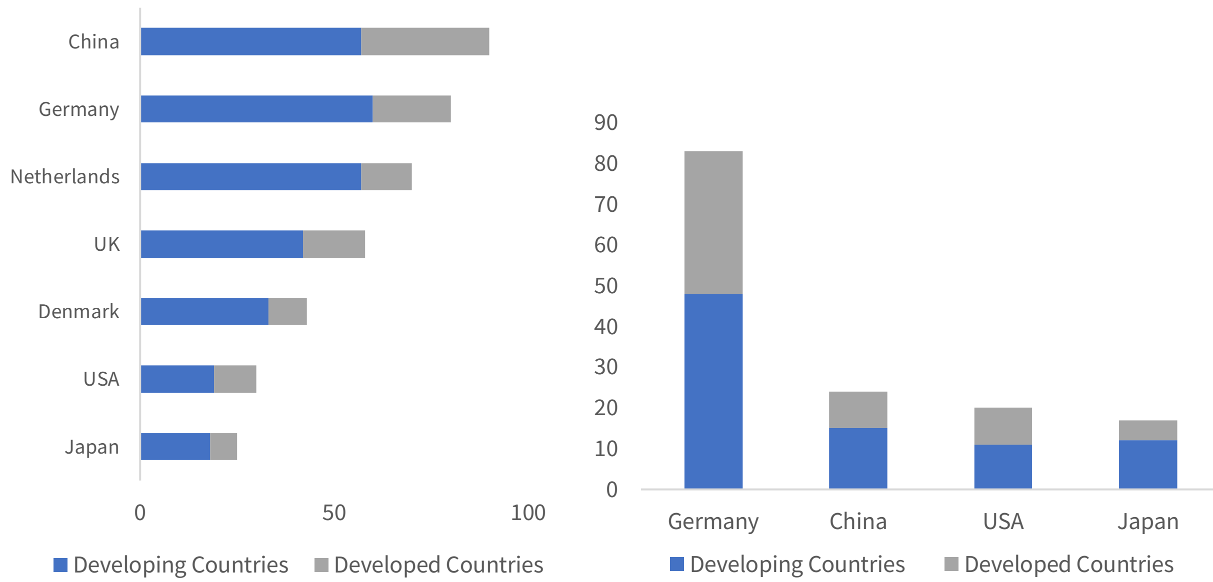
108 See *The Economist*, "How the West Got China Wrong" and Kevin Rudd, "What the West Doesn't Get About Xi Jinping," *New York Times*, March 20, 2018, https://www.nytimes.com/2018/03/20/opinion/xi-jinping-china-west.html.
109 Scott Kennedy, "Made in China 2025," *CSIS*, June 1, 2015, https://www.csis.org/analysis/made-china-2025.
110 Matthew P. Goodman, "A Multilateral and Strategic Response to International Predatory Economic Practices" (testimony before the US Senate Foreign Relations Committee, Washington, DC, May 9, 2019), CSIS, https://csis-prod.s3.amazonaws.com/s3fs-public/congressional_testimony/180508_Matt_Goodman.pdf?XoOvrfXff2R7v7c.x4a.vaTrAQh3ZS_D
111 Michael Nelson, "Barack Obama: Foreign Affairs," University of Virginia Miller Center, https://millercenter.org/president/obama/foreign-affairs; President Barack Obama White House, "The Trans-Pacific Partnership: What You Need to Know about President Obama's Trade Agreement," Obama White House Archives, https://obamawhitehouse.archives.gov/issues/economy/trade.
112 Donald Trump, *National Security Strategy of the United States of America* (Washington, DC: White House, December 2017), https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905-2.pdf.
113 Trump, *National Security Strategy*.
114 Lesley Wroughton, "Trump Administration Says U.S. Mistakenly Backed China WTO Accession in 2001," *Reuters*, January 19, 2018, https://www.reuters.com/article/us-usa-trade-china/trump-administration-says-u-s-mistakenly-backed-china-wto-accession-in-2001-idUSKBN1F82U1?feedType=RSS&feedName=newsOne.
115 For the actual USTR report, see: USTR, *2017 Report to Congress on China's WTO Compliance* (Washington, DC: USTR, January 2018), https://ustr.gov/sites/default/files/files/Press/Reports/China%202017%20WTO%20Report.pdf.
116 Mike Pence, "Economy & Jobs," (remarks at the U.S. Department of Commerce, Washington, DC, July 16, 2018), White House, https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-u-s-department-commerce/.
117 Donald Trump, "Immigration," (remarks, lunch with members of Congress, Washington, DC, June 26, 2018), White House, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-lunch-members-congress/.

example, the number of regional trade agreements (RTAs) and bilateral investment treaties (BITs) that U.S. allies and China have signed with developing countries since the 1990s surpasses those of the United States (Figures 5 and 6). In FDI, although investment flows from the United States still lead in any region, China is slowly catching up in sub-Saharan Africa (Figure 7; see Annex for definitions).

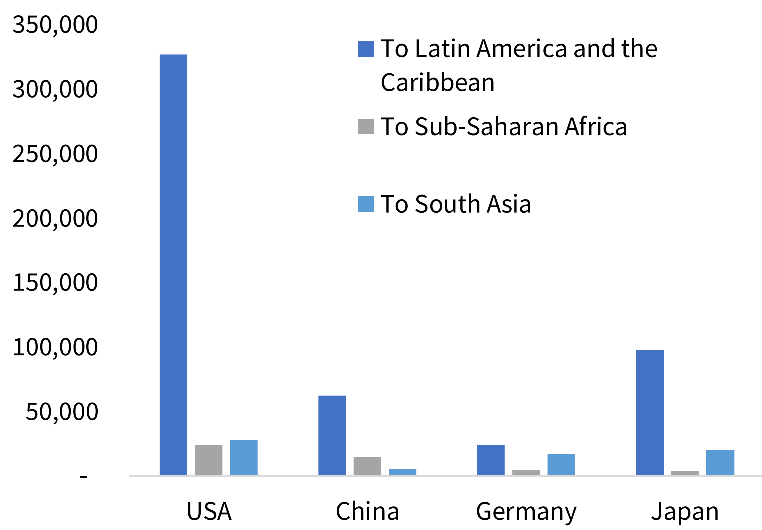
Figures 5 & 6: Regional Trade Agreements since 1990



Sources: UNCTAD and WTO[118,119]

[118] "International Investment Agreements Navigator," Investment Policy Hub, United Nations Conference on Trade and Development (UNCTAD), http://investmentpolicyhub.unctad.org/IIA.
[119] "Participation in Regional Trade Agreements," World Trade Organization, https://www.wto.org/english/tratop_e/region_e/rta_participation_map_e.htm.

Figure 7: Cumulative FDI Outflows by Region, (2003-2012)



Source: UNCTAD[120]

The European Union is ahead of the curve by taking a partnership approach with sub-Saharan nations, partly driven by its colonial past.[121] The EU launched the Africa – EU strategic partnership in 2007, and in its fifth summit it committed to mobilize more than $50 billion by 2020 in sustainable energy, agriculture, digital solutions, micro, small & medium enterprises (MSMEs) financing, and urban infrastructure.[122] Moreover, in trade, the EU is also following a more reciprocal policy by negotiating 40 free trade agreements with sub-Saharan Africa (called Economic Partnership Agreements) aimed at liberalizing markets over a period of time.[123] They aim to convert these from mainly unilateral preferences to more fully reciprocal FTAs.

The current U.S. National Security Strategy (NSS) calls for a "development assistance model" based on a partnership approach to development centered on the private sector.[124] As part of this new development assistance model and to counter China's influence, the current administration recently created a new development finance institution, the United States International Development Finance Corporation (USIDFC).[125] This agency, signed into law by President Trump on October 5, 2018, will modernize the way that the United States finances the private sector abroad. One key enhancement is allowing the USIDFC to make equity investments in developing countries and to take risk using local currency loans, first loss guarantees, and the provision of small grants. Among other features, the new institution has more stability than other agencies—it does not require yearly authorizations—and has a deeper wallet with a $60 billion funding cap, doubling OPIC's current $29 billion.

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[120] "Bilateral FDI Statistics," UNCTAD, http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx.
[121] Witney Schenidman and Joel Wiegert, "Competing in Africa: China, the European Union, and the United States," Brookings, April 16, 2018, https://www.brookings.edu/blog/africa-in-focus/2018/04/16/competing-in-africa-china-the-european-union-and-the-united-states/.
[122] European Commission, "The European Union's External Investment Plan: Green Light for the First Five Investment Areas," European Commission (press release), November 23, 2017, http://europa.eu/rapid/press-release_IP-17-4884_en.htm.
[123] Schenidman and Wiegert, "Competing in Africa: China, the EU, and the US."
[124] Trump, *National Security Strategy*, 2017.
[125] U.S. Senate Committee on Foreign Relations, *BUILD Act of 2018*, 115th Cong., S.2463 (February 27, 2018), https://www.congress.gov/bill/115th-congress/senate-bill/2463.

"The United States will promote a development model that partners with countries that want progress, consistent with their culture, based on free market principles, fair and reciprocal trade, private sector activity, and rule of law. The United States will shift away from a reliance on assistance based on grants to approaches that attract private capital and catalyze private sector activities."

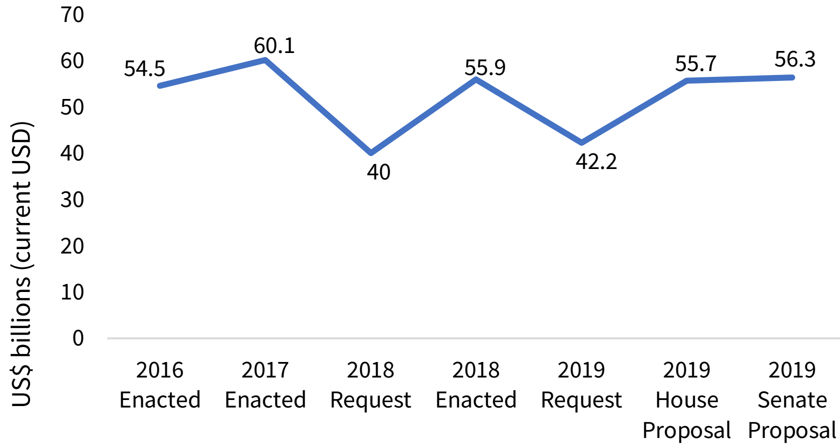
\- *U.S. National Security Strategy 2017*

Although the new USIDFC will have enhanced development finance tools, it alone cannot be the full response of the United States to the China challenge.[126] It is also an insufficient response to our economic engagement with developing countries.

Moreover, the administration is weakening the few tools the United States has: no political leader has been nominated to run the U.S. Trade and Development Agency (USTDA), USTDA has had its funding threatened, and there is neither a permanent EXIM chairman nor board quorum. Moreover, the Trump administration proposed cutting the international affairs budget by 32 percent in 2018 (Figure 8), although Congress has restored this funding because it has the final say with regards to government allocations.[127] For 2019, the proposed budget includes a further cut of $13 billion, with a $3.2 billion reduction in development and economic matters.[128] It also proposes abolishing USTDA, phasing this agency out starting in 2019.[129]

[126] Daniel F. Runde, "Modernizing Development Finance," (testimony presented before the United States Senate Committee on Foreign Relations, Washington, DC, May 10, 2018), https://www.foreign.senate.gov/hearings/modernizing-development-finance-051018.
[127] "Budget Process: Federal Budget 101," National Priorities Project, https://www.nationalpriorities.org/budget-basics/federal-budget-101/federal-budget-process/.
[128] Other major cuts include $2 billion for global health, $1.3 billion for humanitarian assistance, $1.7 billion for international security assistance, $0.5 billion for peacekeeping, and $1.9 billion in food aid. Calculations based on: US Global Leadership Coalition (USGLC), *Congress Once Again Rejects Administration's Proposal to Slash the International Affairs Budget* (Washington, DC: USGLC, June 29, 2018), http://www.usglc.org/media/2018/06/USGLC-House-Senate-Comparison-of-FY19-Budget.pdf.
[129] U.S. Department of State, *Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs* (Washington, DC: U.S. Department of State, 2018), https://www.state.gov/documents/organization/277155.pdf; USGLC, "Analysis of the Administration's FY18 International Affairs Budget Request," USGLC, June 26, 2017, http://www.usglc.org/the-budget/analysis-administrations-fy18-international-affairs-budget-request/.

Figure 8: International Affairs Budget, FY2016-FY2019 Requested Versus Enacted



Source: U.S. Department of State[130]

An Insufficient Emphasis on Fighting Corruption and Upholding the Rule of Law

One of the prime inhibitors for U.S. businesses to engage in developing countries is corrupt business practices and absence of rule of law. A 2014 OECD study showed that more than half of foreign bribery cases occurred to obtain a public procurement contract.[131] Most of these cases occurred in sectors where contracts and licensing are commonplace. Navigating corruption to obtain public procurement is not what U.S. business owners want to sign up for because of the inherent risks and loss of project profits. Indeed, it has been estimated that investment projects lose 20-30 percent of their value due to corruption.[132] Depreciated projects, due to corrupt procurement practices, can limit businesses' readiness to invest. Also, the added costs incentivize businesspeople to invest in safer projects to ensure profits rather than riskier projects which could be more beneficial to developing societies.

Governments around the world procure (i.e., purchase) a substantial amount of goods and services, spending close to 50 percent of their budgets on procurement.[133] Yet many countries do not allow outside players to participate in their bids and often follow very opaque procurement practices. If countries have open, transparent, and professionalized procurement systems, this creates win-win opportunities for the country and outside bidders and can minimize the sources of corruption. Like trade assistance, procurement mechanisms also have the potential to open markets.

[130] U.S. Department of State, "Congressional Budget Justification: Foreign Assistance Summary Tables Fiscal Year 2017," (Washington DC: DOS, 2016), https://2009-2017.state.gov/documents/organization/252735.pdf; U.S. Department of State, "Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs Supplementary Tables Fiscal Year 2019," (Washington, DC: DOS, 2018), https://www.state.gov/documents/organization/279518.pdf; U.S. Global Leadership Coalition, "Congress Once Again Rejects Administration's Proposal to Slash the International Affairs Budget: USGLC Comparison of House and Senate Funding Levels for the FY19 International Affairs Budget," (Washington, DC: USGLC, 2018), http://www.usglc.org/media/2018/06/USGLC-House-Senate-Comparison-of-FY19-Budget.pdf.

[131] OECD, "Preventing Corruption in Public Procurement," (Paris, France: OECD, 2016), http://www.oecd.org/gov/ethics/Corruption-Public-Procurement-Brochure.pdf.

[132] Tina Søreide and Aled Williams. *Corruption, Grabbing and Development: Real World Challenges*, (Bergen: Edward Elgar, 2014)

[133] Miller and Runde, *A New Development Agenda.*

In 2013, USTDA launched the Global Procurements Initiative (GPI) to promote competition and transparency in international procurement, that is, on international bids for the purchase of goods and services.[134] Generally, procurement officers in developing countries rely on the lowest cost as the determining factor when evaluating bids. This means they may not consider other important factors when purchasing a good or service, such as quality, transfer of technology, and other costs associated with the purchase. This mostly happens because countries lack the capacity to perform more sophisticated procurement processes.[135] Moreover, U.S. exporters often compete with foreign players that receive substantial advocacy efforts and subsidies from their governments that tilt the playing field in their direction.

For U.S. firms to better compete internationally, procurement officers in developing countries need to understand complex concepts such as "life-cycle costs" and "best-value" determinations.[136] Through the GPI initiative, the United States works with developing countries to strengthen their procurement systems by professionalizing their staff via training.[137] By helping host countries understand how to use value-based procurement methods, this initiative levels the playing field for U.S. companies. GPI gives U.S. companies the chance to compete—and win—international tenders that would otherwise go to the lowest-cost, and generally foreign, bid.[138] From 2013 to 2016, 775 procurement officials in emerging markets were trained thanks to this initiative.[139] Procurement reform can be a powerful tool both to liberalize trade in developing countries and to tackle tough issues such as corruption. Unfortunately, this is a small program and more could be done in this area.

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What all these U.S. approaches and efforts from the current and past administrations show is that the United States has a development toolkit that needs to be recalibrated toward a more strategic, partnership-oriented relationship with developing countries. In the next section, we propose a series of recommendations for the United States to increase economic engagement with developing countries that would benefit both the United States and developing countries while also helping to counter China's influence.

[134] "Global Procurement Initiative (GPI) – Goals and Objectives," US Trade and Development Agency (USTDA), https://www.ustda.gov/gpi-goals-and-objectives.
[135] "GPI – Key Issues," USTDA, https://www.ustda.gov/program/gpi/key-issues.
[136] Life-cycle costs consist of "first costs" of a project (design and construction expenses) but also long-term costs, including utilities, operations, and maintenance. Through the life-cycle cost analysis, the lowest-cost bid might not be the best option. Another bid can come at a higher initial purchase price but it could offer lower overall costs when considering the entire useful life of the technology or equipment.
[137] Daniel F. Runde, Romina Bandura, and Brunilda Kosta, *What Is the U.S. Trade and Development Agency?* (Washington, DC: CSIS, January 2018), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180130_Runde_USTDA_Web.pdf?OP9tthkFui9w3W0UBeIvEQAAmLiUo4gB.
[138] USTDA, *Promoting Value-Based Procurement as a Tool for Economic Growth* (Arlington, VA: USTDA, 2018), https://www.ustda.gov/sites/default/files/pdf/program/gpi/GPIOverviewBrief_BusinessDevelopment.pdf.
[139] USTDA, *2016 Annual Report* (Arlington, VA: USTDA), https://www.ustda.gov/sites/default/files/USTDA%202016%20Annual%20Report_lowres.pdf.

4 | A Smarter Way to Engage with the Developing World

U.S. development agencies have responded to the changed development landscape by introducing new approaches, institutions, tools, and financing mechanisms. The United States has a good set of institutions including USAID, MCC, the new USIDFC, USTDA, and EXIM. Yet the United States needs a clearer, more strategic vision of how these institutions work together, how they deploy their tools and how we put our partner countries at the center of policymaking. We propose a series of actions going forward:

1. Crafting a U.S. international economic strategy
2. Promoting trade and investment more effectively
3. Introducing new financing tools and approaches

Recommendation 1: The United States Needs to Craft an International Economic Strategy

To respond to China's "predatory" economic practices, the U.S. Congress has recently proposed a bipartisan bill requiring the president and future administrations to regularly produce and submit to Congress a "National Economic Security Strategy." [140] [141] The aim of an economic security strategy is to promote and protect U.S. economic security by providing focus, clarity, and coordination across government agencies.

This legislation is a good first step to counter China's unfair economic practices, which include significant government subsidies that distort competition, force technology transfer, and restrict competition, among others.[142] An international economic strategy to complement the proposed national one should not only be seen as a response to Chinese competition, but also as a smarter way to integrate developing countries into the global economy.

[140] Matthew P. Goodman, "Predatory Economics and the China Challenge," *Center for Strategic & International Studies*, November 21, 2017, https://www.csis.org/analysis/predatory-economics-and-china-challenge.
[141] Committee on Banking, Housing, and Urban Affairs, *National Economic Security Strategy Act of 2018*, 115th Cong. S.2757, U.S. Library of Congress, https://www.congress.gov/bill/115th-congress/senate-bill/2757; "Rubio, Colleagues Introduce Bipartisan Legislation to Counter International Predatory Economic Practices," U.S. Senate (press release), April 26, 2018, https://www.rubio.senate.gov/public/index.cfm/press-releases?ID=A6642968-84EF-46E1-B235-A22E2BC8F2A8.
[142] Goodman, "A Multilateral and Strategic Response to International Predatory Economic Practices."

"America's national security rests on an economic foundation, and predatory economic practices by China and others have undermined that foundation for years. If left unaddressed, these predatory practices will further endanger not only the prosperity of Americans, but also our security, and we must respond in a smart, multilateral, and strategic manner."

- Senator Todd Young

For the international economic strategy to be truly effective, the president should demonstrate a clear commitment via a Presidential Policy Directive or similar measure. The president can advise the National Security Council and National Economic Council to collaborate on the creation of a resilient interagency process for the development and implementation of an international economic strategy. This would include the U.S. Treasury, Department of Commerce, Office of the U.S. Trade Representative, and the Department of State. The federal government should also work with U.S. states and cities and bring in the private sector—all of which have economic interests abroad.[143]

Recommendation 2: The United States Needs to Use its Existing Toolbox More Effectively

The United States has a good set of development tools and approaches that need to be deployed in more effective ways. The United States can participate more actively in commercial deals with developing countries if it leverages three important tools:

- 2.1 Introducing a more balanced approach to U.S. foreign assistance spending
- 2.2 Modernizing and reforming the EXIM Bank to make it more effective
- 2.3 Authorizing a third wave of enterprise funds to simulate private sector development abroad and attract additional investments into developing countries

2.1 A MORE BALANCED APPROACH TO U.S. FOREIGN ASSISTANCE SPENDING

The most resilient and effective approach to development is one that recognizes the benefits and drawbacks of both private capital tools and official aid resources. While foreign aid and technical assistance towards health and food security are important thrusts, market solutions can also be used to resolve these issues while at the same time promoting private sector growth in local communities. The United States can better mitigate the world's health and nutrition challenges through a restructuring of current foreign aid allocations.

143 Goodman, "A Multilateral and Strategic Response to International Predatory Economic Practices."

U.S. foreign aid should place greater emphasis on putting in place interventions that enable local markets in developing countries to grow. Through procurement reform, workforce development, SME development, trade capacity building, and a strengthened business climate, developing countries can better engage with the rest of the world as trading partners.

2.2 MODERNIZING AND REFORMING THE U.S. EXIM BANK

Foreign competitors use export credit financing and other tools to aggressively position themselves abroad and gain competitiveness.[144] Countries like France, China, Germany, and the United Kingdom are aggressively pursuing export credits. In 2016, China supplied the largest amount of export credits—$34 billion.[145] EXIM has calculated that China completed more export financing in just 2014-2015 than EXIM had in its then entire 81-year history.[146] Due to aggressive government support, including export financing, China now holds 7 spots of the top 10 contractors in the world.[147]

As it currently stands, the United States is the only G-20 country without a fully functioning export credit agency (ECA).[148] The Export-Import Bank of the United States (EXIM) is the official export credit agency of the United States, facilitating the export of U.S. goods and services through direct loans, export credit insurance, and loan guarantees. In its last year of fully functional operation (2015), data gathered by the National Foreign Trade Council (NFTC) and the Coalition of Employment Through Exports (CEE) demonstrated how other countries have overtaken the United States in terms of ECA financing (Figure 9).

EXIM has been criticized for its alleged ineffectiveness, cost to taxpayers, and claims that it only serves the needs of large corporations. Despite its reauthorization in December of 2015, EXIM has not been fully operational since July of that year. Presently, EXIM has been denied a quorum of its board and cannot support deals above $10 million dollars, impeding its ability to foster and promote international development. Moreover, EXIM lacks the speed to close financing deals that other ECAs have.[149]

Even if it becomes fully operational, it will remain one of the most restrictive ECAs in supporting its exporters. ECAs are allowed to support up to 85 percent of a project's exports under the OECD Arrangement on Officially Supported Export Credits.[150] To give their companies access to this level of financing, other ECAs such as Bpifrance (France), Hermes (Germany), and Sace (Italy) require 50 percent national content. UK Export Finance requires 20 percent. EXIM has the highest threshold of any global ECA, requiring 85 percent U.S. content to achieve 85 percent support.[151] Lesser content percentages are supported dollar for dollar, e.g., 70 percent U.S. content yields 70 percent support. Very few U.S. manufacturers in a global environment can achieve the 85 percent content level necessary to compete against foreign manufacturers that can easily meet their respective ECAs' content requirements.

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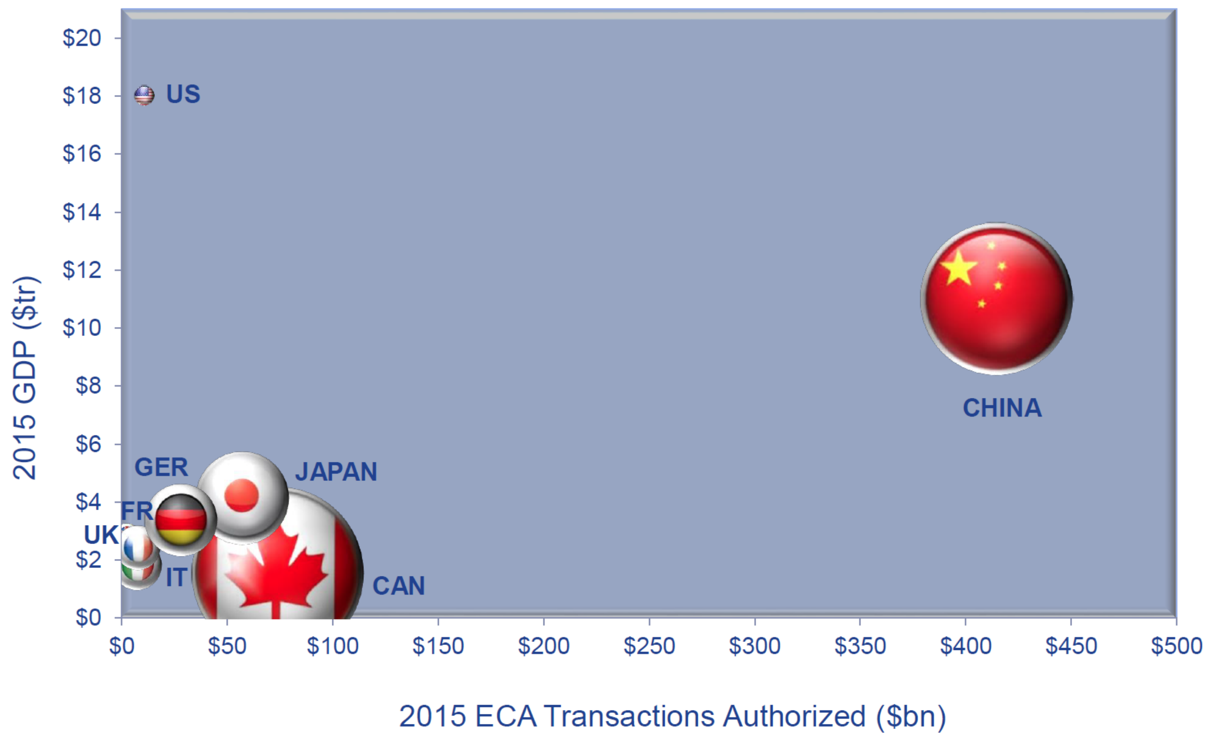
[144] American Academy of Diplomacy and the Una Chapman Cox Foundation, *Support for American Jobs – Parts I & II*.
[145] Brendan P. Bechtel, "Without EXIM Bank, US Companies Fight with a Hand Tied behind Their Backs," *The Hill*, May 8, 2018, http://thehill.com/opinion/finance/386730-us-companies-fighting-with-a-hand-tied-behind-their-backs-without-exim-bank.
[146] EXIM, *Report to the U.S. Congress on Global Export Credit Competition*, (Washington, DC: EXIM, June 2015), 1, https://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.
[147] "ENR 2017 Top 250 Global Contractors 1-100," Engineering News Record (ENR), August 2017, https://www.enr.com/toplists/2017-Top-250-Global-Contractors-1.
[148] Bechtel, "Without EXIM Bank, US Companies Fight with a Hand Tied behind Their Backs."
[149] American Academy of Diplomacy, *Support for American Jobs: Part II*, 23.
[150] Export-Import Bank of the United States, "Report to the U.S. Congress on Global Export Credit Competition," (Washington, DC: EXIM, 2018), 31, https://www.exim.gov/sites/default/files/reports/competitiveness_reports/2017/CompetitivenessReport_FINALProof.pdf.
[151] American Academy of Diplomacy, *Support for American Jobs: Part II*, 23.

Figure 9: Major Export Credit Agencies Authorizations in 2015 ($billion)



Source: National Foreign Trade Council[152]

EXIM needs to be modernized, reauthorized, and strengthened so that it can be more effective in supporting companies' exported goods and services abroad. The bank can have a greater focus on financing U.S. mid-market firms, SMEs, and new sectors that have not traditionally received ECA financing (i.e., services and ICT/digital sectors). Moreover, the bank needs to close transactions more quickly and be able to lend above the $10 million financing cap. The local content rule should also be re-examined: currently, for businesses to be eligible for EXIM financing, goods and services exported must have more than 50 percent U.S. content based on all direct and indirect costs.[153] It would be worthwhile to revisit this percentage and take into account individual sector characteristics and the levels of integration of their respective global supply chains.[154]

2.3 AUTHORIZE A THIRD WAVE OF ENTERPRISE FUNDS TO SIMULATE PRIVATE SECTOR DEVELOPMENT ABROAD AND ATTRACT ADDITIONAL INVESTMENTS INTO DEVELOPING COUNTRIES

The United States should consider launching a third wave of enterprise funds in key countries of geostrategic value to the United States. Enterprise funds are a U.S. foreign policy tool created in the early 1990s to spur private sector development abroad and are strong complements of other U.S. development efforts. Enterprise funds use U.S. government funding to invest in private equity and credit in emerging

[152] National Foreign Trade Council, "Comparison of Major Export Credit Agencies 2015 Authorizations as a % of GDP," (Washington DC: NFTC, 2015), http://www.nftc.org/default/CEE/ECA%20Comparison%20Bubble%20Chart%20-%202015%20Support%20by%20GDP.pdf.
[153] "Short-term Content Policy," EXIM, https://www.exim.gov/policies/content/short-term-content-policy.
[154] American Academy of Diplomacy, *Support for American Jobs: Part II*, 29.

markets.[155] These institutions function like private equity funds and are independently managed by external investment professionals. Since their formation more than 25 years ago, enterprise funds have strengthened the private sectors of developing countries including countries in the former Soviet Union, Egypt, and Tunisia. They have also been instrumental in attracting additional foreign investment and have generated significant returns that have gone back to the U.S. Treasury.

However, they remain an underutilized U.S. development tool. Enterprise funds could be transformational and complementary to other development programs undertaken by OPIC, MCC, and USAID in countries that are struggling with unemployment, so long as they are open to U.S. presence and want to foster a more robust private sector using U.S. expertise.

Recommendation 3: The United States Needs a Renewed "Development Finance Toolbox"

A U.S. international economic strategy and a more effective use of existing development tools could be complemented by introducing new approaches and additional financing facilities. A renewed U.S. "development finance toolbox" would better serve the needs and aspirations of developing countries. A revamped toolbox could include the following:

- 3.1 Introducing a "whole of government" approach to U.S. bilateral development institutions
- 3.2 Increasing commercial engagement from U.S. embassies in key locations
- 3.3 More focused use of bilateral MOUs with associated financing, training, and other commercial support
- 3.4 Creating new financing facilities

3.1 A WHOLE OF GOVERNMENT APPROACH

A whole of government approach to development is necessary for the United States to compete with the well-coordinated development initiatives put in motion by the Chinese, Japanese, and German governments.[156] Different bilateral agencies must be linked so that they may harmonize strategies, approaches, and tools, and work more collaboratively.[157]

OPIC, USAID, USTDA, MCC, and other U.S. development agencies all engage in private sector development but primarily do so independently of one another. Development agencies should be incentivized to collaborate among themselves and with the U.S. private sector: by promoting U.S. companies overseas, the shared goal of boosting U.S. exports can be met.[158] Because U.S. development agencies all receive different

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[155] Daniel F. Runde, Romina Bandura, and Aaron Milner, *Time for a Third Wave of Enterprise Funds*, (Washington, DC: CSIS, September 13, 2018), https://www.csis.org/analysis/time-third-wave-enterprise-funds. Also note that there have been two waves of enterprise funds to date: the first wave was during President George H.W. Bush's administration in the early 1990s and the second wave was during the presidency of Barack Obama in early 2011. The enterprise funds of the 1990s were aimed at bolstering the private sector in former communist states in Central and Eastern Europe and the former Soviet Union. The second wave of enterprise funds was partly a response to the Arab Spring, to provide essential capital and private-sector expertise in two fragile yet strategically important countries to the United States: Egypt and Tunisia.
[156] American Academy of Diplomacy and Una Chapman Cox Foundation, *Support for American Jobs - Part I and II*.
[157] The President's Advisory Council on Doing Business in Africa (PAC-DBIA), *Recommendations Report* (Washington, DC: PAC-DBIA, April 18, 2018), https://www.trade.gov/pac-dbia/Recommendations-Apr2018.pdf.
[158] Export.gov, "Global Market/Commercial Service Liaison Office to the World Bank," International Trade Administration (ITA), https://2016.export.gov/worldbank/#_self.

budgets from Congress, it is critical that their funding aligns into a cohesive strategy of development finance.[159]

In this regard, the United States can proactively support its private sector through multilateral banks. In particular, the U.S. Commercial Liaison Offices of the multilateral development banks are an important instrument that could be used more extensively to support U.S. firms. These offices help U.S. businesses understand how they can get involved in bank-funded projects and advocate on behalf of U.S. bidders.[160]

3.2 MORE COMMERCIAL ENGAGEMENT FROM U.S. EMBASSIES IN KEY LOCATIONS WITH A MORE FOCUSED USE OF BILATERAL MOUS

U.S. embassies can have a more prominent role in commercial matters by promoting more linkages between local businesses and the U.S. private sector. The role of the ambassador is key in fostering this commercial relationship.[161] Both the Department of State and Department of Commerce have officers in embassies around the world that support commercial activity on behalf of U.S. interests. On the State Department side, there are 1,600 foreign economic officers overseas, while there are about 245 officers from the Commerce Department working in different embassies. One key enhancement would be to improve the commercial training and professional development of these officers and better align the programs of these two agencies.[162]

Secondly, there is a need for more commercial staff in key strategic regions. As stated above, the United States has about 245 foreign commercial service officers stationed around the world. However, only 11 of these commercial attachés and their teams are located in sub-Saharan Africa, despite the continent's tremendous potential for private sector growth.[163]

3.3 MORE FOCUSED USE OF BILATERAL MOUS WITH ASSOCIATED FINANCING, TRAINING, AND OTHER COMMERCIAL SUPPORT

Commercial attachés could be instrumental in providing better linkages between local businesses and the U.S. private sector. In this regard, U.S. embassies can be catalysts for forging memorandums of understanding (MOUs) between the U.S. government and host governments to increase U.S. private investment and commercial participation in select countries. These MOUs define the relationship of governments in a particular area, addressing the basis and terms of cooperation between both countries.[164] Foreign competitors have used this instrument to advance their commercial interests while addressing various developing countries' particular needs. These MOUs are often linked to financing mechanisms from the home country and other forms of support. The PAC-DBIA fact-finding trip in July 2018 demonstrated that the U.S. government and businesses are not only receptive to the idea of investing in Africa, but also presently willing to do so. MOUs between the United States and Ghana, Ethiopia, and Kenya were signed as a result of this trip. Through these MOUs, the parties committed to invest in

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[159] Secretary for Public Diplomacy and Public Affairs, "Advancing a Free and Open Indo-Pacific," U.S. Department of State, July 30, 2018, https://www.state.gov/r/pa/prs/ps/2018/07/284829.htm.

[160] See listing under "U.S. COMMERCIAL SERVICE LIAISON OFFICES AT THE MULTILATERAL DEVELOPMENT BANKS" in Export.gov, "World Bank Group – Project Financing," ITA, https://www.export.gov/article?id=World-Bank-Group-Project-Financing.

[161] American Academy of Diplomacy and Una Chapman Cox Foundation, *Support for American Jobs - Part II*.

[162] Ibid.

[163] Information provided by an email from the U.S. Department of State on August 8, 2018.

[164] U.S. Geological Survey (USGS), "USGS Memorandums of Understanding with other Federal Agencies or Entities," U.S. Department of the Interior, https://www2.usgs.gov/mou/.

infrastructure, agriculture, industry, railways, and energy in the form of public-public, public-private, and private-private ventures.[165]

3.4 CREATE NEW FINANCING FACILITIES WITH INCREASED RESOURCES TO IMPROVE THE U.S. COMPETITIVE EDGE

The new USIDFC is a step in the right direction to revamp U.S. private sector engagement in developing countries. The USIDFC can fill some of the current gaps in the U.S. foreign policy toolbox by introducing new financial instruments such as first loss guarantees, equity investments, and local currency loans. It will improve economic engagement with developing countries and allow the United States to compete more effectively for development projects.

Although the USIDFC has enormous potential, some minor improvements are needed. First, the USIDFC could have more explicit institutional linkages with USAID, an agency with decades of relationships, expertise, and long-term engagement with foreign countries. For example, regular secondments and rotations among USAID, MCC, and the new USIDFC could be instituted. Moreover, to ensure better coordination and linkages between both agencies, some key staff positions could be "dual-hatted," meaning they would serve concurrently as USAID and USIDFC employees, accountable to both institutions. Examples of such positions are the head of the Development Credit Authority (DCA) and the chief development officer position of the new USIDFC. Second, USAID should continue working with partner countries, providing advice on reforms to enable better business environments. This would set the stage to enable investments by the new USIDFC. In this regard, USAID and the new USIDFC would have strong complementarities. USAID must continue supporting the development of the private sector abroad in partnership with the USIDFC. Lastly, the new USIDFC could have a small cadre of full-time investment officers overseas, that is, people on-site who understand development finance. These officers should be placed in USAID missions and should work as part of the USAID mission team.[166]

Alongside the USIDFC, the United States has a chance to expand its global engagement in infrastructure projects. The substantial global infrastructure gaps around the world, including in the United States, present an opportunity for U.S. companies to bid in international projects. A "U.S. Global Infrastructure Initiative" could empower the United States to gain the lead in global infrastructure project spending and would be the international counterpart for the Trump administration's domestic infrastructure plan.[167] This initiative could be modeled on Power Africa with a focus on urban infrastructure as a first step.

The initiative could be an alternative to the offers of foreign competitors and be a vehicle to improve U.S. economic ties with developing countries. Key elements of a U.S. Global Infrastructure Export Initiative could include the following:

- Creating a "Special Representative for Global Infrastructure" office within the U.S. State Department or Commerce Department working with other U.S. bilateral agencies that would be tasked to improve advocacy and promotion among U.S. officials of current infrastructure priorities.

[165] Citi Newsroom, "Ghana, USA Sign MoU for New Partnership," *CNR*, July 5, 2018, https://citinewsroom.com/2018/07/05/ghana-usa-sign-mou-for-new-partnership/.
[166] Daniel F. Runde, "Modernizing Development Finance," (testimony presented before the United States Senate Committee on Foreign Relations, Washington, DC, May 10, 2018), https://www.foreign.senate.gov/hearings/modernizing-development-finance-051018.
[167] Interview with leading US infrastructure technology exporter, 22 March 2018.

- Appointing an “infrastructure attaché” at U.S. embassies to advance U.S. interests on infrastructure projects.
- Conducting a thorough review of best practices among main competitors, including export their promotion programs, to identify areas in the U.S. system that could be strengthened and reformed.
- Launching initiatives such as “Infrastructure Africa” and “Infrastructure Asia” that could be based on the “Power Africa” model, incorporating lessons learned from that experience.

5 | Conclusion: Key Takeaways

The developing world is rapidly changing. A number of countries are moving up the income ladder and want to be engaged as equal partners in the global economy. The developing world is hungry for private investment and seeks greater trade ties with many foreign powers.

Other countries have realized the economic potential of the developing world and are using commercial diplomacy in more effective ways than the United States. The United States has a good development toolbox to facilitate trade and investments abroad, but it is outdated, uncoordinated and lacks a strategic vision. Our allies and China are currently filling the void created by our lack of funds and our lack of strategy in the emerging economies of Southeast Asia, Africa, and Latin America.

The United States needs to better engage in trade and investment with developing countries. We must view developing countries as emerging or emerged partners who desire deeper relationships built around trade, investment, and economic growth. A U.S. international economic strategy that leverages existing tools and introduces a renewed development finance approach is needed. It is time for the United States to renew its economic engagement with developing countries.

Annex: Definitions

Bilateral Investment Treaties (BITs)[168] are international agreements that determine the terms and conditions for private investment by entities located in one country that are investing in another country. BITs are used to protect private investment, develop market-oriented policies in partner countries, and promote U.S. exports and international law standards.

Foreign Direct Investments (FDI)[169] are investments made by nation-state entities or programs in foreign countries. FDI differs from portfolio investments in that FDI establish either effective control of, or at least substantial influence over, the decision-making of a foreign business whereas portfolio investments are often merely a purchase of equities of foreign-based companies. FDIs can be horizontal, vertical, or conglomerate.

Government to Government Memoranda of Understanding (MOUs)[170] are non-binding agreements between two or more governments that often serve as the first step towards a formal or legally binding agreement between the parties. MOUs outline expectations and an intention to collaborate on a range of areas, such as trade, private investment, or scientific cooperation.

Regional Trade Agreements (RTAs)[171] are trade agreements between nation-states located in the same geographical location that boost regional growth through reciprocal trade and favorable policies for member-states which typically protect the region from competition from outside sources.

Trade and Investment Framework Agreements (TIFAs)[172] are a form of economic integration that allow for the United States and other nations to debate and come to agreement on policies which improve cooperation and enhance trade and investment opportunities. Committees and trade councils are often established as a result of TIFAs, which enable governments to move closer towards free trade agreements. It is normal for TIFA Councils, which usually are made up of senior level government officials, to meet once a year. The United States has TIFAs in every region of the world.

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[168] "Bilateral investment treaty," Cornel Law School, https://www.law.cornell.edu/wex/bilateral_investment_treaty; "Bilateral Investment Treaties," Office of the United States Trade Representative, https://ustr.gov/trade-agreements/bilateral-investment-treaties.

[169] "Foreign Direct Investment (FDI)," United Nations Conference on Trade and Development, https://unctad.org/en/Pages/DIAE/Foreign-Direct-Investment-(FDI).aspx; "Foreign Direct Investment – FDI," Investopedia, https://www.investopedia.com/terms/f/fdi.asp.

[170] Examples of MOUs include "Guidelines for a Memorandum of Understanding," Department of Justice, http://www.doj.state.or.us/wp-content/uploads/2017/08/mou_sample_guidelines.pdf; "Memorandum of Understanding Between The United States Federal Trade Commission and the Information Commissioner's Office of The United Kingdom on Mutual Assistance in the Enforcement of Laws Protecting Personal Information in the Private Sector," US Federal Trade Commission, https://www.ftc.gov/system/files/attachments/press-releases/ftc-signs-memorandum-understanding-uk-privacy-enforcement-agency/140306ftc-uk-mou.pdf.

[171] "Regional trade agreements and the WTO," World Trade Organization, https://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm ; "Regional Trade Agreements," OECD, http://www.oecd.org/tad/benefitlib/regionaltradeagreements.htm.

[172] "Trade & Investment Framework Agreements," Office of the United States Trade Representative, https://ustr.gov/trade-agreements/trade-investment-framework-agreements; "Trade and Investment Framework Agreement (TIFA)," Business Dictionary, http://www.businessdictionary.com/definition/Trade-and-Investment-Framework-Agreement-TIFA.html.

Trade Capacity Building[173] refers to equipping developing countries with the necessary tools to participate in the global trading system more fully. This includes efforts such as technical assistance, official and entrepreneur training, and infrastructure investment from international organizations and governments.

Trade Facilitation[174] refers to making the entire trade process simpler and more standardized, from importer to exporter. It focuses on reducing time and costs to make the trade chain more efficient by, for example, minimizing paperwork and streamlining customs procedures.

[173] "Building trade capacity," World Trade Organization, https://www.wto.org/english/tratop_e/devel_e/build_tr_capa_e.htm.
[174] "Trade facilitation – Cutting 'red tape' at the border," World Trade Organization," https://www.wto.org/english/tratop_e/tradfa_e/tradfa_introduction_e.htm.

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