Historically, the United States has provided foreign assistance for reasons of enlightened self-interest—in other words, by helping developing countries fulfill their goals, the United States has also furthered its own foreign policy objectives. Since the onset of the Cold War, U.S. foreign assistance has helped many countries prosper and build freer political and economic systems. With U.S. assistance, countries such as Germany and Japan were able to successfully overcome the horrific damage of World War II and at the same time serve U.S. economic interests by becoming top trading partners and security allies. In fact, 11 out of 15 of the United States’ current top trading partners were once recipients of U.S. foreign assistance. Similarly, the countries that the United States supported in the 1960s and 1970s—Chile, Costa Rica, South Korea, Taiwan, and Brazil—have now “graduated” from U.S. foreign aid and, like the nations of Western Europe, have become some of our largest trading partners and defense allies.

With the world rapidly changing, the delivery of U.S. foreign assistance will also need to adapt to new realities. The developing world still needs U.S. foreign assistance, but where and how the United States invests its money and expertise will require a strategic repositioning. While this redirection is partially due to an evolving global economic landscape, increasing competition with China and Russia is a main driver.

**Origins of U.S. Foreign Assistance**

The origin of U.S. modern-day foreign assistance dates back to the Marshall Plan of 1948. Following the economic damage brought about by World War II, George C. Marshall, who was secretary of state under Truman, designed the Marshall Plan, which provided more than $13.3 billion in aid to rebuild war-torn Europe. The success of the Marshall Plan paved the way for future U.S. foreign assistance initiatives. Beneficiary countries were persuaded of the benefits of the U.S.-led, liberal international order, which was strategically important in the Cold War.

The great power competition of the Cold War between the Soviet Union and the United States heightened awareness of the U.S. soft power toolkit. Jolted by the communist coup in Czechoslovakia in 1948, Senator Arthur Vandenberg, former chair of the Senate Foreign Relations Committee, understood the threat
Soviet expansionism posed to the free world and saw the potential for a strategic use of foreign assistance in Europe. His relentless advocacy garnered bipartisan support for the Marshall Plan's eventual passage through Congress. The Marshall Plan was instrumental in improving the lives of many European nations and strengthened the trans-Atlantic alliances that are still crucial to U.S. interests and foreign policy objectives. It also set an important precedent that future U.S. foreign assistance structures would draw upon and solidified the role of the United States as an advocate for a liberal, rules-based order that would prevail in opposition to communism.

**Box 1: A Changing Foreign Aid Landscape**

Foreign aid has traditionally been provided through bilateral agencies (such as USAID, OPIC, USTDA, and MCC) or multilateral institutions (the World Bank, International Monetary Fund, regional development banks, etc.) in the form of “official development assistance” (ODA), which consists of grants and concessional loans to developing countries. More recently, there have been many changes to the development finance landscape, including the presence of new actors such as the private sector, NGOs, and philanthropies who are beginning to fill the finance gap that traditional aid actors cannot tackle alone. The growth and impact of private sector investments and other financing tools in development have led to questions about the relevance and need for future traditional foreign aid provided by developed countries and bi- and multilateral institutions. While development finance alternatives are growing, foreign aid still plays a critical role, which includes providing relief for humanitarian disasters, financing development in low-income countries, and supporting standard-setting bodies that help to level the playing field for public and private sector actors.

While U.S. foreign assistance structures have evolved over time, the goals have remained largely the same: help countries in need, proliferate free-market principles, and foster robust alliances to promote U.S. interests. The Marshall Plan served as inspiration for future foreign assistance initiatives. Following the Marshall Plan, President Truman spearheaded the creation of the *Point Four Program*, which helped developing countries through technical assistance and greater foreign investment while also encouraging the growth of their own domestic resources.

The Point Four Program led to the eventual formation of the U.S. Agency for International Development (USAID). The emergence of USAID came at a time when the U.S. government was concerned that communism would win the hearts and minds of ordinary people throughout the developing world, especially as decolonization accelerated in Africa and Asia. *The Ugly American*, a 1958 novel, indicted haughty and ineffective U.S. engagement in Southeast Asia and called for the United States to effectively counter communism by working at the grass-roots level to improve the lives of poor people. Then-senator John F. Kennedy was so seized by the novel that he famously sent a copy to each of his Senate colleagues as “required reading.” Once he became president, Kennedy used The Ugly American’s ideas as the blueprint for the Peace Corps and also for the *Foreign Assistance Act of 1961*, which founded the USAID. USAID became the coordination vehicle for much of U.S. foreign aid and expanded the focus of foreign assistance beyond just economic development to areas like agriculture, health, and education. The central themes of the Marshall Plan were retained with the creation of USAID. Since the creation of USAID, the United States has provided an average $20 billion a year in foreign aid—just 1 percent of the federal budget. Although this amount now represents 1.2 percent of the budget, the United States is by far the most generous nation in terms of foreign aid disbursements.
**Recent U.S. Foreign Assistance Initiatives**

Though it is perpetually popular to question whether foreign aid is “worth it,” there are numerous instances across a variety of sectors where U.S. foreign aid has been enormously successful. From the Green Revolution, where U.S. aid saved hundreds of millions from starvation, to Taiwan, where decades of U.S. aid and assistance laid the groundwork for Taiwan’s economic success and flourishing democracy today, to Plan Colombia, where the United States worked with Colombia to implement an aid program that pulled the country back from the brink of collapse and set it on its current path towards peace and prosperity, U.S. foreign aid has cultivated enduring partnerships and improved the lives of untold numbers of people. These programs and initiatives have enjoyed bipartisan support, highlighting the strong commitment to U.S. foreign assistance from both sides of the aisle. In each of the last three administrations, Republicans and Democrats alike have launched major initiatives to address new needs and adjust how the United States provides foreign assistance (see box 2).

**Foreign Aid in a New Era of Strategic Competition**

The good news is that global economic growth over recent decades has resulted in a number of countries transitioning to middle-income status, though such progress may be impacted by a COVID-19 global economic downturn. As these countries become wealthier, freer, and more self-sufficient, the United States should be ready to shift from an assistance-based engagement to a broader partnership. The increasingly urbanized global middle class will most likely develop consumer tastes and political preferences similar to those in the West. As people get richer, they demand higher quality food and better-functioning governments.

However, there is another set of countries that is on a second, less promising path. While many countries progress to middle-income status, close to 60 states can be classified as “fragile” states that are generating many of our biggest national security threats. These countries require a different set of instruments and approaches that require closer partnerships between development and security domains. Overall, there remains a major role for U.S. foreign assistance, but it must be applied to different challenges and opportunities to reflect a changed world.

At the same time, China is seeking to expand its influence in the developing world. Today, the United States is in a new era of strategic competition reminiscent of the Cold War. The “China challenge” is different than what the United States dealt with during the Cold War. While the Soviet economic model and record was not particularly attractive to states that understood the role of markets in development, the Chinese model and record is. China is offering an alternative to democratic, free-market principles through providing large state-to-state lending, such as infrastructure projects that are desperately needed in developing countries in record amounts and times.

China’s Belt and Road Initiative (BRI)—estimated to be around $1 trillion—spans 70 countries and is likened to a modern-day Silk Road. China is now Africa’s largest trading partner and has built many dams, ports, roads, and railways that will help increase interregional trade and cooperation. However, China’s development policy does not respect global standards for transparency or labor.

While the United States cannot match China’s investments dollar for dollar, it does have several options to respond to China’s growing influence. The United States should create an international development strategy based on the 2018 National Security Strategy and more effectively use existing development tools, which could be completed by introducing new additional financing facilities. A renewed U.S. “development finance toolbox” would better serve the needs and aspirations of developing countries. The United
States also needs a more strategic vision of how its development agencies such as USAID, Millennium Challenge Corporation (MCC), U.S. International Development Finance Corporation (DFC), U.S. Trade and Development Agency (USTDA), and the Export-Import Bank can work together. Partnering with our allies to promote open markets and open societies with an even playing field for U.S. goods and services will also be important. Taking these necessary steps to bolster U.S. global presence and leadership will counter China’s growing network of economic partners and dependents.

In contrast to China, Russia poses a different kind of threat. While Russia is a less powerful economic force, its leadership has emerged as a credible threat to democracy and independence for its neighboring countries including Ukraine, Moldova, and Georgia. By curtailing access to energy, spreading disinformation, targeting political assassinations, producing cyber-attacks, and interfering with elections, the Russian leadership aims to bring its neighbors back under its orbit.

The Russia threat has forced the United States to rethink its role and strategy for the region. The United States should use its soft power resources at its disposal, namely its foreign assistance resources. Much of the responsibility for pushing back on what the Trump administration calls “Malign Kremlin Influence” falls to USAID. The Trump administration recently rolled out its Countering Malign Kremlin Influence (CMKI) strategy, the greatest reframing of our foreign assistance in that region in over a decade. CMKI has several main objectives: counter efforts to undermine democratic institutions and the rule of law, resist the manipulation of information, and reduce both energy and economic vulnerabilities. USAID has significantly increased spending in these target areas around Russia’s periphery, the so-called “frontline states” such as Ukraine, Moldova, and Georgia, and it will likely be a strategy for the foreseeable future. While the Trump administration has proposed budgets with significant cuts to spending in Ukraine, Moldova, and Georgia, Congress has repeatedly rejected such cuts.

**Future “Invisible Threats” Require Rethinking U.S. Foreign Aid**

Looming invisible threats such as cybersecurity attacks, financial crises, and new pandemics also force the United States to rethink its foreign aid apparatus. The current COVID-19 pandemic has severely disrupted the global economy and healthcare systems. In response to the pandemic, the United States has largely shifted its focus to domestic economic priorities. The recently passed Coronavirus Aid, Relief, and Economic Security (CARES) Act contains $1.15 billion for the Department of State, USAID, and other international initiatives. While the U.S. government is concerned with controlling the virus at home, it has continued to support its foreign partners and allies during this time. Secretary of State Mike Pompeo announced $500 million in humanitarian and economic assistance for countries combatting Covid-19, though likely much more funding is needed. This funding will be crucial in assisting developing countries to mitigate the effects of the virus and help countries with weaker health systems and supply chains with critical medical equipment and resources. The USAID Office of U.S. Foreign Disaster Assistance should take the lead in putting together Disaster Assistance Response Teams to deploy in dozens of countries.

The world is in a different place and is moving at a different pace. Countries will need to confront new challenges, and we need to anticipate where the future is going. Now is the moment to update our tool kit and rethink our approach. In the past, we have created new foreign assistance programs such as the Marshall Plan and USAID that allowed us to be competitive with the Soviet Union. As a result, the U.S. model “won” with the fall of the Soviet Union in 1989. This is a new epoch in aid. The United States needs to change with the times or risk becoming less relevant to our partners.
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