INTRODUCTION

The United States faces a new era of great power competition as a rising People's Republic of China (PRC) and revisionist Russia challenge key aspects of the post–Cold War international security and economic landscape. The two countries pursue distinct strategies in their efforts to carve out their own spheres of influence and vision for the international order. Vladimir Putin’s Russia uses a coercive mix of diplomacy, propaganda, military threats, and cyberattacks to reverse the Cold War settlement. Primarily concerned with maintaining its influence over the former Soviet Union, Russia is seeking to prevent countries like Ukraine and Georgia from moving closer to the West. These dynamics are currently playing out in Russia’s invasion of Ukraine. Russia has also pushed beyond its near abroad in recent years through its 2015 military intervention in Syria and deployment of private military contractors in the Central African Republic and Libya. But its economic and development power remains limited—largely constrained by the rise and fall of energy markets—and it poses far less of a multifaceted challenge to the United States than the PRC.

In contrast, the PRC is a credible strategic competitor to the United States across a broad range of indicators. China’s significant economic growth since the 1990s enabled the country to make significant investments in its military, economic, and development power. The PRC has increased its trade and investment relationship across developing regions and provided significant financial support for infrastructure development—a much-desired area of growth that the United States and its partners are largely unwilling to fund. The most prominent example of these actions is the Belt and Road Initiative, which is a massive infrastructure umbrella that spans much of the
world and includes projects in Southeast Asia, central Asia, sub-Saharan Africa, and Latin America. The PRC has reinforced these moves by seeking greater influence in multilateral organizations, including creating their own institutions—the Asian Infrastructure Investment Bank and the New Development Bank. The Cold War was an ideological competition that pitted two global superpower-led blocs against each other focusing largely on a nuclear and conventional arms race. The Soviet Union and its allies, however, never seriously competed with the United States when it came to trade and investment. In contrast, competition today with the PRC will rely much more heavily on economic tools, especially development finance (including foreign aid), trade and investment, and competition on developing digital technology. The United States has long relied on foreign assistance to support its foreign policy objectives. The United States deployed aid to support friends and allies throughout the Cold War, solidify gains in the post–Cold War environment, and reinforce peace agreements in the Middle East. More recently, successive administrations have looked to foreign aid as critical to the Global War on Terror through reconstruction programs in Iraq and Afghanistan, as well as support for frontline allies such as Pakistan and Jordan. The past three presidential administrations have identified the PRC as a rising strategic competitor, each taking a different approach to countering this threat. The Obama administration launched “Pivot to Asia,” which saw a significant reshuffling of U.S. military assets toward the Pacific. It also sought to negotiate the Trans-Pacific Partnership, a trade pact with 12 Asian and Pacific countries. The Trump administration took a more confrontational tack, explicitly calling out the difference between U.S. assistance and Chinese assistance, seeking to offer a “clear choice” between these two approaches. Under the Biden administration, the U.S. Agency for International Development (USAID) is again reviewing existing policy and drafting a new strategy to help guide an affirmative response to the challenges posed by the PRC. In competing with China—and Russia to a lesser extent—the Biden administration will also contend with broader international challenges such as the Covid-19 pandemic, rising authoritarianism, and climate change. The Biden administration’s Interim National Security Guidance captures this dynamic: “China, in particular, . . . is the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system.” This range of challenges calls for a far more creative response by the United States that draws on the full range of its economic, development, diplomatic, and defense power. This brief will focus on the role that foreign assistance—and other development finance tools—can play in countering strategic competitors, focusing on the unique challenge posed by the PRC. It will provide an overview of how the United States has used foreign assistance to support foreign and national security policy since the end of World War II. Critical lessons can be gleaned from past engagements and can better inform today’s debates. Above all, history shows that it is critical to place good development practice at the center of all assistance, even when used for strategic purposes.

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**USING FOREIGN ASSISTANCE TO COUNTER GEOSTRATEGIC CHALLENGES**

Since modern foreign assistance emerged post–World War II, it has been used by countries to influence geostrategic outcomes. The United States, for its part, has frequently turned to foreign assistance to support friends and allies and advance its foreign policy and geostrategic goals. The United States used foreign aid throughout the Cold War, and this has continued to this day. Traditionally, the U.S. government has provided three rationales for foreign assistance: (1) to support foreign policy and national security; (2) to address humanitarian concerns; and (3) to enable commercial and economic engagement. Over the past decade, the largest recipients of foreign assistance—Israel, Egypt, Jordan, Afghanistan, Iraq, and Colombia—have all received aid in the furtherance of core U.S. foreign policy and national security objectives.

**THE COLD WAR AND A PEACE DIVIDEND**

During the Cold War, foreign assistance emerged as a potent tool for the United States to assert influence. In 1947, the United States proposed the Marshall Plan, officially known as the European Recovery Plan, to help rebuild the war-shattered economies of Western Europe. Under the Marshall Plan, the United States committed $13 billion in economic and technical assistance over a four-year period (1948–1952) to countries in Western Europe.
U.S. investment in post-war Europe began as a response to immediate humanitarian needs and transitioned into a reconstruction effort. This created lasting economic ties in the process. Eventually, as decolonization accelerated, the United States deployed foreign assistance as a method of keeping states in the Western sphere of influence and countering the Soviet and PRC alternative.

Subsequent administrations continued to view foreign aid as critical to the success of their foreign policy. John F. Kennedy came into office believing that the United States could offer newly independent countries a better deal than former European colonial powers (whom he viewed as tired) or Soviet and Chinese communism. To offer a “third way,” the Kennedy administration sought to consolidate a fragmented set of aid programs and agencies into a centralized program, USAID. After the Kennedy administration, subsequent administrations continued to rely on foreign assistance as a tool to achieve results in the Cold War. Throughout this period, aid was used to reward and support friends and allies, and the threat of an aid cutoff was used as a cudgel if countries moved away from Washington.

Aid continued to be used for strategic purposes. As part of the 1979 Camp David Accords, the United States agreed to provide Egypt with similar levels of security and economic assistance to those provided to Israel. This helped guarantee peace between those two nations; this agreement and peace between the two countries continues to this day.

Critical lessons of what worked and what did not work can be drawn from the U.S. experience during the Cold War. Foreign assistance was a critical tool in driving and supporting economic and political reform. Those who are reflexively anti-aid often suggest that foreign aid achieved little in 70 years, and yet, the U.S. experience in the Cold War suggests success is possible. U.S. foreign aid to Chile, Costa Rica, South Korea, Taiwan, and Brazil played a role in enabling long-term economic growth that lifted people out of poverty, advanced social development gains, and later laid the conditions for these countries to transition to vibrant, multiparty democracies. In those cases, the United States took a long-term perspective, partnered closely with the government, and sought to reinforce reforms and gains when and where they emerged. That said, foreign aid in the Cold War did have a dark side, and in the case of Zaire, the Philippines, and South Vietnam it was used to prop up unsustainable autocratic regimes that largely used aid for their own selfish purposes. In these instances, the focus was squarely on maintaining a particular regime in power and ensuring access to strategic minerals and military bases or supporting an ongoing counterinsurgency.

Recognizing that even when aid is used for strategic aims, good development practices must be applied is critical to successful long-term development. This is the central lesson of aid in the Cold War.

The end of the Cold War saw a significant drawdown in U.S. foreign assistance levels as Congress and the Bush and Clinton administrations sought to capitalize on the “peace dividend.” Aid played an important role in supporting the transition of former Eastern bloc countries from authoritarian one-party states that relied on a centrally planned, command economy to liberal multiparty democracies with free-market economies. The Bush and Clinton administrations both supported robust aid packages that helped to create modern, independent judiciaries; establish commercial codes; and implement reforms that enabled broad-based economic growth that improved the standard of living across the region. They also enabled nascent democracies to become more institutionalized. This was targeted foreign assistance deployed in support of geopolitical goals—cementing the democratic revolutions that ended Soviet domination of Central and Eastern Europe—done right.

**SEPTMBER 11, COUNTERTERRORISM, AND NEW AID PROGRAMS**

After George W. Bush entered office pledging a more humble and less activist role for U.S. foreign policy, the September 11, 2001, terrorist attacks significantly reshaped his administration’s priorities on foreign assistance and shifted its objectives toward a focus on using democracy and human rights promotion to counter radicalism and terrorism in the Middle East and elsewhere. The administration’s official National Security Strategies reflected these shifts and emphasized the promotion of democracy and human rights globally to prevent the spread of terrorism. The 2002 National Security Strategy directly states, “We will use our foreign aid to promote freedom and support those who struggle non-violently for it, ensuring that nations moving toward democracy are rewarded for
the steps they take." After September 11, foreign assistance was directed to supporting reconstruction efforts in Afghanistan and later Iraq and shoring up critical allies in the war on terror, such as Pakistan and Jordan. The Bush administration also launched new aid efforts, including the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Corporation (MCC). Both were premised on the belief that foreign assistance could provide lifesaving support that would reinforce economic and political reforms and prevent instability that feeds support for terrorism.

These efforts reversed the long decline in U.S. foreign assistance, and total amounts jumped significantly during the Bush administration. Total levels grew from just over $20 billion in fiscal year (FY) 2001 to just over $50 billion in FY 2008. Although PEPFAR and MCC were strong contributions to U.S. foreign assistance in general, the Bush administration originally attempted to circumvent USAID with their creation. However, in its final two years, the administration changed course and sought to rebuild USAID’s human capital by substantially increasing the number of foreign service officers and civil service staff, recognizing that the post–Cold War drawdown hurt the agency’s ability to support reconstruction efforts in Iraq and Afghanistan.

The Obama administration came into office seeking to draw a clear distinction from its predecessor, especially when it came to global cooperation and international development. The Obama administration sought to provide greater direction to U.S. development efforts through a Presidential Policy Directive (PPD-6, also known as the Global Development Policy), in response to the fact that efforts were often disconnected from each other. PPD-6 makes it clear that “development is thus indispensable in the forward defense of America’s interests in a world shaped by growing global economic integration and the fragmentation of political power; by the rise of emerging powers and the persistent weakness of fragile states.” It also notes, “[T]he successful pursuit of development is essential to advancing our national security objectives.”

The document goes on to set numerous goals, including fostering emerging markets and democratic governance, investing in innovation, and building sustainable public sector capacity. To support the implementation of PPD-6, former USAID administrator Rajiv Shah established USAID Forward in 2010, an initiative that strived to rebuild and expand USAID. The goals and practices of PPD-6 reflect a similar principle in the use of international development tools to maintain U.S. power abroad. In the case of Presidents Bush and Obama, the strategic objective of that power was to prevent the spread of terrorism. But that was about to change.

A TURN INWARD?

The Trump administration entered office with a well-noted disdain for foreign assistance and preaching the need for an “America First” foreign policy. Its rhetoric was matched by an initial presidential budget proposal that included a 30 percent cut to the State and Foreign Operations budget for FY 2018. This request was cloaked in a mishandled push for improved “effectiveness and efficiency” at the State Department, USAID, and other development agencies. The administration also initially proposed shutting down the Overseas Private Investment Corporation and the U.S. Trade and Development Agency, viewing them as either duplicative of other efforts or “corporate welfare.” A central disconnect of the Trump administration’s approach to foreign assistance was a constant attempt to reduce overall funding levels in the face of significant volumes of Chinese official finance. The Trump administration never seemed to grasp the fact that you cannot fight more with less. Every presidential budget request during the Trump years included a request to cut the State and Foreign Operations budget by up to 30 percent. The Office of Management and Budget also engaged in a series of “rescission” exercises with State Department and USAID money where they sought to return lawfully appropriated foreign assistance to the Treasury. These efforts were later deemed illegal by the Government Accountability Office.

There were also persistent rumors for the first half of 2017 about to change. The Trump administration intended to fold USAID into the State Department. While this threat ultimately faded, it did yield a wide-ranging reform effort at USAID known as “Transformation” that sought to update USAID’s internal organization and its policies. Additionally, USAID under the Trump administration developed a new policy known as “Clear Choice” that sought to draw clear distinctions between the positive benefits of U.S. foreign assistance and the negatives associated with assistance from the PRC. While much of the Trump administration’s policies toward development were disjointed and left to the discretion of senior government officials, rather than coming from the White House, administration officials claimed that only “ally countries” or those with aligned political and economic values could receive foreign assistance, as well as countries who had made a credible commitment to self-reliance. These policies were never actually implemented.
The PRC has long provided foreign assistance to developing countries and, like the United States, uses that assistance to support its geostrategic goals. During the Cold War, the PRC supported “revolutionary” partners in Southeast Asia and sub-Saharan Africa. As a preview of its future policy, the PRC helped construct the TAZARA railway that linked Tanzania with Zambia in the 1970s. China’s economy boomed in the late 1990s and early 2000s, which led to a steady increase in its use of foreign aid and official finance. Not unlike the United States, the PRC relies upon a fragmented system of agencies and departments to provide aid. Initially, much of the PRC’s foreign aid came from the foreign aid department of the Ministry of Commerce, but this became the Chinese International Development Cooperation Agency in 2018. At the core of Chinese official finance is a variety of state-owned financial institutions, including the China Development Bank, Export-Import Bank of China, and China Export and Credit Insurance Corporation. While China’s financing is frequently referred to as “aid,” it is inaccurate to characterize all of its financing as such. In fact, it is a mix of official development assistance (ODA), soft and concessional loans, export credits, and other sovereign financing. Much of what China provides is better described as other official finance (OOF) and not ODA as defined by the Organization for Economic Cooperation and Development’s Development Assistance Committee (OECD-DAC). Using those definitions, China’s $4.8 billion in ODA is closer in volume to what the Nordic countries provide on a yearly basis. On the OOF side, the China Development Bank and China Export-Import Bank provided $462 billion in sovereign financing commitments between 2008 and 2019. This represents nearly the same amount that the World Bank provided during the same period. Figure 2 shows a breakdown of Chinese external financing by type. Officially, China does not present this as “foreign assistance” but rather as “south-to-south” cooperation and describes its assistance “in terms of two-way exchanges and two-sided cooperation.” China states that it provides financing with “no strings attached,” in marked contrast to the West, which frequently imposes governance and economic reform conditions on its assistance. Despite this rhetoric, China does place two conditions on its financing: (1) a country cannot recognize Taiwan; and (2) construction contracts are very frequently or almost always awarded to Chinese state-owned enterprises (SOEs). China’s use of non-grant financing—export credits, soft and concessional loans, and other sovereign financing—has garnered criticism from the United States and others for potentially saddling countries with unsustainable debt. Twenty years ago, when the United States and other nations were faced with large budget deficits and rapidly growing national debts, China did not participate in the debt restructuring process. It has increased its debt vulnerability. The Chinese government has expanded its debt obligations, which has contributed to the popularity of other sovereign-liability instruments.
lenders undertook debt relief for developing countries (heavily indebted poor countries), most debt was held by members of the Paris Club and multilateral organizations (e.g., World Bank, the International Monetary Fund, and other international financial institutions). While some have questioned the narrative of China’s “debt-trap diplomacy,” it is undeniable that the PRC provides a significant amount of external financing to countries in debt distress. Today, most of the debt across developing countries is held either by China or by private investors who flocked to these countries in search of higher yields in the wake of the global financial crisis of 2009–2010. The World Bank recently estimated that in 2022, one-third of debt service payments by the 74 poorest countries in the world are owed to China with another one-third to private investors. In both instances this amounts to just over $13 billion.

U.S. policymakers should acknowledge and understand that the PRC’s approach to development finance is a clear strength. Developing countries need updated and expanded infrastructure, but they face a significant financing gap. The PRC, whatever its internal reasoning, correctly saw this as an opportunity and moved aggressively to provide financing. While much can be made of “white elephant” projects—soccer stadiums, presidential palaces, and economically inefficient ports—the PRC has also constructed a significant number of roads, railroads, seaports, and other hard infrastructure that can support increased economic growth. Except for the multilateral development banks, this stands in marked contrast to the United States and other Western donors, who largely ceased funding hard infrastructure in favor of other social and economic development projects. Although the PRC’s aid depends on recipients accepting its One China policy and frequent award of contracts to Chinese SOEs, few other conditions are attached to it, especially on the governance and political reform side. Chinese aid is also often seen as more efficient, in part because of the lack of standards required to obtain it in recipient countries, but also because of the lack of bureaucracy within China to authorize it. These are issues that the United States and its partners and allies must grapple with as they confront the PRC.

**U.S. Development Model: Transformational, Not Transactional**

The United States still offers a compelling development model to the world that offers a transformational rather than transactional approach, one that is built on good development practices and lifts millions out of poverty. Unlike the PRC, the United States engages with its partners in a transparent and responsible manner. President Obama’s PPD-6, which recognized that USAID and international development are central to achieving foreign policy objectives, is a strong starting point but needs to be updated to include a more cohesive strategy on incorporating competition with the PRC. Quite rightly, the current administration decided to undertake a review of existing efforts to counter China through foreign assistance. USAID is reviewing its existing policy and how it can better use its substantial resources to present an appealing model to developing countries. U.S. government development agencies should, however, resist the temptation to look at all assistance programs through the lens of competition with China. There will be times when assistance will support a foreign policy objective that is not directly related to China; there will also be times when good development programs will not necessarily counter China or directly support U.S. foreign policy. Policymakers should include factors outside of competition with the PRC when deciding on where to prioritize foreign assistance.

Foreign assistance should also overlap with broader

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**Figure 3: China’s ODA and OOF Portfolio Compared to G7 Countries, 2000–2017**

![Graph showing China’s ODA and OOF portfolio compared to G7 countries, 2000–2017]

U.S. foreign policy objectives and be used strategically to promote U.S. interests. For example, providing foreign assistance to countries in the Northern Triangle will not only help local populations but also address the root causes that lead to migration to the United States. In an era of strategic competition with China, U.S. foreign assistance should focus on areas where the United States has a competitive advantage over China, making it a strong alternative to the Chinese model.

**U.S. government development agencies should, however, resist the temptation to look at all assistance programs through the lens of competition with China.**

Figure 4 below illustrates this model through a Venn diagram of three circles: U.S. foreign policy, good development practice, and countering China.

Figure 4: U.S. Model: U.S. Foreign Policy, Good Development Practice, and Countering China

At the center of U.S. foreign assistance should be good development practice, whether that assistance is being used in a strategic context or under other circumstances. Good development practice means that the United States does not leave recipient countries in unsustainable debt; provides limited but targeted high-quality infrastructure largely through MCC compacts, Power Africa, and the water sector at USAID; and engages in knowledge and technology transfers to create strong trading partners around the world with the goal of eliminating their need for aid. This is what sets U.S. assistance apart from the PRC’s model. While the Chinese take a top-down approach to development that engages mainly with governments on a national level, the United States engages across all levels, including the local level. The priority for aid to be successful is that it must reach communities in need. Working on a more localized level ensures that assistance is reaching these intended communities. Localization is an area where the United States, led by USAID, has a competitive advantage over the PRC. While the PRC focuses on large infrastructure projects that are often built with Chinese materials and managed by Chinese workers, the United States works to strengthen local communities by providing technical assistance and supporting private sector development. Second, local-level efforts are important because they give communities the opportunity to provide input on how funds should be used.

**MULTIFACETED APPROACH: BEYOND OFFICIAL DEVELOPMENT ASSISTANCE**

To date, policymakers in the United States have largely focused on the role that grant-based foreign assistance and private sector–directed financing provided by the U.S. International Development Finance Corporation (DFC) can play in countering China. These are important tools and represent significant sources of financing for developing countries, but they are not sufficient when compared to China. For example, when the **BUILD Act**, which established the DFC, was under consideration in Congress, it was sold by many as the U.S. answer to China’s “predatory” lending. Many quickly caveated that by noting the DFC and the United States would not match China “dollar for dollar” but would bring a different, better approach focused on the private sector. This has also led to a dynamic where stakeholders in Washington want the DFC to do everything everywhere by pushing it beyond its legislative mandate. During the Trump administration, this led the DFC to engage in a potential port refurbishment deal in Greece, a sovereign debt swap in Ecuador, and support for energy security projects in Central and Eastern Europe.

Simply looking at the private sector financing provided by the DFC and grant assistance from the State Department, USAID, and MCC needlessly limits the U.S. response to the PRC’s robust official finance. The U.S. government needs to think more holistically about its official finance, looking to maximize the not-insubstantial tools it has in its toolkit.

Source: Authors’ own research and analysis; thanks to Richard Crespin, who helped develop the original thinking around this Venn diagram.
While often overlooked, the U.S. government’s tools are similar to those that the PRC has used to make inroads in developing countries. For example, the U.S. Export-Import Bank (ExIm) could play a bigger role in enabling infrastructure investment. As of late, ExIm has been troubled, being seen by many as a financing mechanism to enable sales of Boeing aircraft and GE industrial products overseas. ExIm experienced a prolonged period where Congress refused to reauthorize it, and it lacked confirmed board members to advance new project commitments, until a compromise was reached in 2018 to pass a new seven-year authorization.

In the past, the United States relied on a mix of grants and concessional loans to support local governments’ development plans. Beginning in the 1980s, the United States slowly wound down its development loan programs over concerns related to debt sustainability and a broader belief that aid should not impose additional costs on countries. These soft or concessional loans were used largely to finance the construction of hard infrastructure in sub-Saharan Africa, Southeast Asia, and other regions. For example, USAID provided loans to the Philippines in the 1970s that were used to construct roads and bridges in rural districts to improve market linkages. The authority remains for USAID to make soft or concessional loans to

**Figure 6: Gap in U.S. Offering**

<table>
<thead>
<tr>
<th>State/USAID/MCC</th>
<th>Limited or No U.S. Programs</th>
<th>DFC</th>
<th>ExIm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant-Based ODA</td>
<td>Concessional Loans &amp; Sovereign Loan Guarantees</td>
<td>DFI – Bilateral Private Investment</td>
<td>Export Credit</td>
</tr>
<tr>
<td>No Expectation of Return</td>
<td>Close to Market Rate of Return</td>
<td></td>
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Source: Authors’ own research and analysis.
developing country governments; given the PRC’s use of debt financing, the United States should look at how it can offer a responsible, transparent alternative that meets the real demands of developing countries. Other OECD-DAC donors, including Japan, France, Germany, and EU institutions, continue to provide a significant amount of their funding in concessional loans where appropriate.

In recent years, the U.S. government has provided sovereign loan guarantees to countries in extraordinary circumstances. This includes Ukraine in 2014 following the popular uprising against President Yanukovych and Egypt in the wake of the fall of President Mubarak. While these should still be used sparingly, sovereign loan guarantees or potentially direct sovereign loans offer an important tool that could help counter PRC lending in upper-middle-income or higher-income countries of strategic interest to the United States.

**PRIORITIZING SECTORS**

The United States spends its foreign assistance across nearly every sector and region. USAID has a presence in 80 countries, alongside regional missions that provide coverage in countries without a physical USAID presence. This, combined with the State Department’s diplomatic presence, gives the United States an unmatched ability to engage with countries. But when shaping its response to the PRC, the United States should narrow its focus to a set of sectors and regions where it can reasonably offer an alternative to the PRC model. This will mean strengthening existing support and increasing support for sectors that have been neglected in recent years, including hard infrastructure, digital, health systems strengthening, and private sector development. These are areas where either the U.S. government should offer a viable alternative to China’s model (e.g., hard infrastructure) or where the United States brings significant comparative advantages and the PRC is not offering an alternative to the U.S. model (e.g., private sector development).

The United States largely ended its support for hard infrastructure beginning in the 1970s as support shifted toward the basic human needs agenda. The U.S. government does still provide some support through the water sector at USAID, Power Africa, and MCC compacts. MCC is a significant source of financing for infrastructure projects through its compact process. Not surprisingly, as the agency conducts its “constraints to growth” analysis, it frequently finds that lack of quality infrastructure is a binding constraint to growth in many countries.

The U.S. government needs to build on this continued experience and offer more robust support for the development and construction of hard infrastructure. The Build Back Better World Initiative (B3W) is a good start, but it should include new and targeted sources of financing for roads, bridges, ports (air and sea), railways, and other things that connect an economy. B3W not only shows an increased commitment by the G7 to utilize development finance tools for infrastructure but also reflects a renewed focus on using development to promote foreign policy interests. In the case of B3W, this is shown by its focus on projects that support climate, health, digital technology, and gender equity. Power Africa could offer a compelling example of how to bring together a strong interagency response to a clear challenge. It could also provide a pipeline to bring existing projects into the B3W initiative, giving them the full support of the G7.

Closing the digital divide is a paramount challenge for countries that wish to fully realize the benefits of the twenty-first-century knowledge economy. As with traditional infrastructure, hard and soft digital infrastructure is critical to enabling a country to thrive in the global economy. This is an area where the PRC has moved to fill a clear void by offering countries cheaper alternative digital networks (including 5G) delivered by Huawei and ZTE. This technology comes with serious drawbacks, and the PRC is also frequently willing to provide countries with the tools to control or limit access to the internet. For those countries that want it, the United States should seek to provide higher-quality digital infrastructure by partnering with the private sector.

As the recent Covid-19 global pandemic shows,
the world remains largely unprepared for dealing with and responding to pandemics. This is especially true in developing countries, where health systems remain relatively weak and dependent on donor support. The United States is the leading donor for global health, having achieved significant outcomes over the past 20 years. But Covid-19 showed that these gains are fragile, and that for all the money spent, donors have largely failed to build sustainable and resilient health systems. This reflects the fact that most of U.S. global health funding has focused on fighting specific diseases rather than building comprehensive systems. Refocusing some U.S. global health resources on building these systems would draw on one of the strengths of U.S. foreign assistance and create the conditions for greater resilience during future pandemics. It would also put countries on a path toward a position where they can assume more control over local health outcomes, indirectly strengthening the citizen-state bond.

Another advantage the United States can offer is private sector development. The U.S. government has powerful tools that can enable small and medium-sized enterprises to attract the capital needed to create jobs, grow incomes, and drive economic growth that will enable broader societal benefits. The DFC, with the support of USAID and other U.S. development agencies, should be at the center of these efforts, and the administration should give it the political cover to take greater (smart) risks to support investment in lower-income and lower-middle-income countries—the countries most starved of private capital. Countries and businesses throughout the world want to be connected to the U.S. private sector for a variety of reasons, including the development of technology, high standards, and access to finance. Assistance from the Chinese government is dominated by Chinese companies for their benefit, but they do not provide knowledge sharing or finance development in the same way that U.S. companies do.

**CONCLUSIONS AND RECOMMENDATIONS**

The Biden administration faces a fundamentally changed international landscape. There are a confluence of issues—climate, the ongoing Covid-19 pandemic, an assertive PRC, and a revisionist Russia—that require a strong, multifaceted response by the United States.

**RUSSIA REMAINS A STRATEGIC THREAT**

While this paper focuses on the unique threat of the PRC, Russia’s invasion of Ukraine serves as a strong reminder that the United States faces a strategic threat in Russia as well. Russia relies on a coercive mix of diplomacy, economic threats, cyberattacks, military force, and propaganda to achieve its aims. While some tools and approaches will be like those used to counter the PRC, the U.S. government will need to rely far more on security assistance to support its partners in the face of Russian aggression. Recognizing that Russia does not provide a compelling economic development vision cedes much ground to the United States and its partners. In the coming weeks, the United States and its European allies should provide significant support to Ukraine to tackle the ongoing humanitarian consequences of Russia’s invasion. But planning should also begin for reconstruction when the war ends. This will require significant funding from the international community, and the United States should lead the way in helping rebuild Ukraine’s economy, ensuring that it becomes an integral part of a whole and free Europe.

The PRC has aggressively used a combination of economic, trade, and development tools to offer countries in sub-Saharan Africa, Southeast Asia, southern Asia, and other developing regions a clear alternative to the United States and its partners. The Biden administration is working to develop new strategies to deal with the PRC, but it needs a framework that draws on foreign assistance, official finance, and other economic tools to counter the PRC’s influence and regain its leadership role. To do so, the Biden administration needs to remember when the U.S. government successfully used foreign assistance to support its geostrategic objectives during the Cold War.

**First,** it should place good development practice at the center of any response that includes foreign assistance. The Cold War showed that when the United States took a long-term view, engaged local governments and partners, and aligned with local development needs, foreign assistance enabled economic growth, poverty reduction, and ultimately democratic governance. The State Department and USAID should clearly articulate this as the U.S. development model. In doing so, they should be clear...
that not all U.S. foreign assistance will be viewed through the light of countering the PRC, but that there will be areas and moments where that is the case. But a model and framework are not enough; resources and programming will be needed.

Second, the administration should prioritize sectors and regions that are strategically important or where the United States brings comparative advantages. Reprioritization means that existing foreign assistance programs may be stopped in some settings if they are not strategically critical. The environment for big increases in foreign assistance is challenging, with Congress facing a massive increase in the deficit and overall federal debt driven by Covid-19 and new proposed domestic spending programs. Should the Republicans regain control of Congress in the 2022 midterms, they likely will not support significant increases in spending, although it is important to note that bipartisan support for foreign assistance prevented dramatic decreases during the Trump administration. Given this environment, the administration should undertake a review of existing U.S. assistance programming across sectors and regions to identify where the United States brings unique comparative advantages vis-à-vis other donors. The Trump administration attempted to do such a review, but it failed—largely because the draft review concentrated on trying to focus assistance through a transactional lens. That said, it would be worth revisiting such an effort under the current administration.

When considering new programs, USAID and the State Department should take a clear-eyed look at where U.S. foreign assistance can provide the most impact for the money available. A good example is the Pacific Islands. The United States is not the largest donor there, but the islands are of geostrategic interest. In 2020, USAID began a process to develop a new strategy for the Pacific Islands with the intent of establishing a formal mission presence. Australia, New Zealand, and the Asian Development Bank all have a significant presence across the Pacific, providing the largest amount of development assistance. The Biden administration’s **Indo-Pacific Strategy**, released in February 2022, highlights that “a free and open Indo-Pacific can only be achieved if we build collective capacity. . . . Those efforts begin with our closest alliances and partnerships.” Given this focus on cooperation, USAID and other development agencies should take a clear-eyed view of where limited U.S. foreign assistance would be most effective alongside large existing development programs run by allies and partners.

The United States should focus assistance in strategic settings in the following sectors: **infrastructure, digital, health systems strengthening, democratic governance, education, and private sector development**. These are areas where either the U.S. government should offer a viable alternative to China’s model (e.g., hard infrastructure) or the United States brings significant comparative advantages and the PRC does not offer an alternative to the U.S. model (e.g., private sector development, democratic governance, and education).

Third, while the United States needs to better prioritize where it spends its foreign assistance, the administration should seek—and Congress should grant—a moderate increase in the topline foreign assistance budget. The Biden administration rightly sought an increase of just under $7 billion in its FY 2022 budget request; it appears likely that Congress will approve this when it finalizes its budget negotiations in the coming weeks. But this is not enough, and the administration should seek a further increase in FY 2023. Such an increase should be targeted to flexible spending accounts within the State and Foreign Operations budget to enable a continued robust response to the Covid-19 pandemic.

Fourth, in addition to an increase in overall foreign assistance, the administration should also work to develop a full spectrum of financial tools to counter the PRC. This will mean looking at the totality of U.S. official finance, including the DFC, ExIm, sovereign loans and loan guarantees, and soft and concessional loans from USAID. Importantly, loans issued by USAID and other federal agencies do not need to be appropriated on a dollar-for-dollar basis; Congress would simply need to appropriate a certain amount of funding to cover the “subsidy” cost of a concessional rate loan. This means that USAID could do far more financing without seeking a massive increase in the State and Foreign Operations budget. This would be especially beneficial in mitigating the impact of climate change and providing a new source of financing for the construction of sustainable hard infrastructure. Any move to reintroduce a concessional loan program at USAID should be done under a framework of responsible lending and transparency. These two frames are often missing from when the PRC provides financing to governments; this is a way for the United States to provide a clear alternative. Regardless, the U.S. government must carefully weigh the potential benefits versus downsides associated with providing state-to-state financing.
Policymakers should care what the stakes are for the United States if it fails to find new and creative ways to counter the PRC with its development and economic power. Policymakers must also realize that the United States cannot compete with the PRC on a dollar-for-dollar basis. The PRC’s approach of “no strings attached” official financing ignores the importance of democratic governance, accountability, and transparency, and this strategy favors closed economic orders and patronage over open competition. Its approach is about influence and power rather than improving lives. Such an approach undermines the significant progress made over the past three decades as people across developing countries have seen reduced poverty, improved health outcomes, and overall increases in life expectancy. The United States offers a compelling model that is transformative and not transactional; it is a model that values good governance, accountability and transparency, and anti-corruption and respects the rights of women and marginalized communities. Policymakers in the United States, however, need to be honest that the United States is not fully meeting the demands of its partners in developing countries. This void is being filled by the PRC. Competition with the PRC will require greater attention to development, trade, and investment than with the Soviet Union. It is past time for the United States to take this challenge seriously and make the needed adjustments.

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