Development Finance in the Age of Trump: Back to the Future?

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Much has been made of the "new isolationism" suspected to be a guiding principle for the foreign policy of the Trump administration. But it should, by now, be clear that Trump is not seeking to withdraw from certain global engagements as much as he is to replace a range of US multilateral commitments—from trade agreements to military alliances to conventions to international development banks—with bilateral deals. Some have argued that this, in effect, abandons the basic rules of an American-led global order, and passes the baton to China. The White House budget proposal seems to confirm these fears. It argues for major cuts—with a few exceptions such as funding for Israel, HIV/AIDS, and vaccines—to most forms of development assistance, including the budgets of the US Department of State, Agency for International Development, and the Department of the Treasury's international programs, as well as funding for multilateral development institutions. How will this impact the existing landscape for development financing?

Keep in mind that, when it comes to budget proposals, US foreign assistance is frequently on the chopping block, sometimes dramatically so. In 2011, the Republican Study Committee called for cuts to 80% of the USAID operating budget, as well as the defunding of some of the same institutions targeted in the current White House proposal, including contributions to the United Nations and its affiliated agencies, federal subsidies to the Woodrow Wilson Center, and contributions to the World Bank. For US politicians, promises to cut foreign aid come easy: foreign aid has historically been the one item equally unpopular among both Democratic- and Republican-leaning voters. In a Pew Research poll on the eve of the budget sequester in 2013, of 19 options for cutting government spending only one—reducing foreign aid—was supported by more than 40 percent of Americans. Of course, Americans are also notoriously clueless about US foreign aid, vastly overestimating the amount their government actually spends on foreign assistance. Hence, the current White House's fiscal plan can convincingly say that cutting foreign aid "puts America first by keeping more of America's hard-earned tax dollars here at home" because the average American thinks that a third of the budget is devoted to foreign aid—a misunderstanding that has, more or less, persisted since the 1960s!

So once again the international community finds itself bracing for the impact of potential reductions to US development financing. Several observers have also voiced concerns that US withdrawal will cede leadership in key regions—East Asia, Latin America, and Sub-Saharan Africa—to China which has been seeking to expand its own global influence, and whose distinct aid practices threaten to upend current standards and norms with respect to development assistance.

Many of the dramatic claims made with respect to China's foreign aid practices, however, do not stand up to empirical scrutiny. Arguments have been made that Chinese development financing erodes the power of OECD donors and, in so doing, is leading to a silent revolution in international development. But there is little evidence, for example, that China's aid programs in Sub-Saharan Africa have weakened the role of other traditional donors. China is also said to prioritize access to raw materials and its own foreign policy goals, often at the expense of poverty alleviation. But analyses of Chinese aid flows do not indicate a stronger resource-seeking bias or greater attention to geopolitical factors compared to other donors. China's opacity when it comes to foreign aid makes it impossible to gauge the effectiveness of its funding, and enables it to channel financial support to rogue states. But that Chinese aid (and investment) seems to be targeted towards more corrupt states with weaker human rights records is likely a result of a spurious correlation, in that the Chinese—being relative latecomers to the business of natural resource extraction—have likely found that most new resource discoveries not already contracted by Western producers happen to be in states with poor rule of law.

More importantly, China is hardly the first donor to shape its development financing strategies around its own strategic and commercial goals, or around its growing needs for natural resources and energy. The United States, perhaps more than any other major donor, perfected foreign aid as tool of foreign policy. For much of the Cold War, the United States allocated aid: to protect oil exporting nations from Communist influence; to reward allies; to finance the investment needs of states bordering the Soviet Union; to entice recipient countries to privilege US multinationals; to build consumer markets for US goods; and to secure the supply of raw materials into the United States. US aid during the Cold War did not adhere to current rules for aid effectiveness—there was no imperative for cross-donor coordination, no concept of recipient-country "ownership," nor any incentive to focus on development impact.

As it was for the United States in earlier periods, one goal of Chinese aid is to secure necessary raw materials and energy resources, and to create a friendlier home for Chinese capital in emerging markets. Sub-Saharan African countries, in particular, are viewed as prime markets for Chinese goods and services (in particular, engineering contracts). In this sense, China's development financing approach has transformed some African economies into proving grounds for Chinese corporations. In many cases, Chinese authorities have requested preferential access to African markets through additional bilateral compacts in order to privilege Chinese state-owned enterprises in these new markets.

Although little has come out of the State Department or the White House regarding substantive plans for reforms to development financing, given a shrinking budget it will be tempting for US authorities to mimic some of these approaches. Several times on the campaign trail, for example, Trump had pledged to stop sending aid to "countries that hate us." We may expect, therefore, that any new financing commitments will likely be targeted to countries in exchange for their allegiance. It is also possible that economic assistance will be provided as part of a deliberate *quid pro quo*—for certain commercial or military privileges. In a sense, the new approach may be to compete with the Chinese on these terms, i.e., who can gain strategic advantage through aid provision. Contained in a list of questions from the Trump transition team sent to the State Department and Pentagon (obtained by the *New York Times*) was the following question: "How does US business compete with other nations in Africa? Are we losing out to the Chinese?"

The potential retrenchment of US leadership, unfortunately, may potentially reverse recent years of progress in achieving greater transparency in foreign aid, as well as in raising awareness among both donor and recipient of the need for better coordination and mutual accountability for results—all of which have been achieved through multilateral engagement, and much of which may be at risk in a new era. It is highly unlikely that Chinese authorities will take up the banner of "aid effectiveness," given their tendency to avoid—rather than apply—rules that bind their financing practices. And the Trump administration's coming reforms may bring the world back to those Cold War years when donors prioritized their own commercial and strategic interests over development impact, and with development assistance with numerous geopolitical strings attached was an unavoidable fact of life.