

Development as a Tool of Economic Statecraft



A NET ASSESSMENT OF U.S. AND CHINESE APPROACHES

Eric Robinson, Alexandra T. Evans, Raymond Kuo,
Howard J. Shatz, Andrew Stravers, Stephanie Stewart

RAND National Security Research Division

September 2023
Prepared for Independent Research & Development

For more information on this publication, visit www.rand.org/t/RRA2271-1.

About RAND

The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. To learn more about RAND, visit www.rand.org.

Research Integrity

Our mission to help improve policy and decisionmaking through research and analysis is enabled through our core values of quality and objectivity and our unwavering commitment to the highest level of integrity and ethical behavior. To help ensure our research and analysis are rigorous, objective, and nonpartisan, we subject our research publications to a robust and exacting quality-assurance process; avoid both the appearance and reality of financial and other conflicts of interest through staff training, project screening, and a policy of mandatory disclosure; and pursue transparency in our research engagements through our commitment to the open publication of our research findings and recommendations, disclosure of the source of funding of published research, and policies to ensure intellectual independence. For more information, visit www.rand.org/about/research-integrity.

RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

Published by the RAND Corporation, Santa Monica, Calif.

© 2023 RAND Corporation

RAND® is a registered trademark.

Library of Congress Cataloging-in-Publication Data is available for this publication.

ISBN: 978-1-9774-1135-8

Design: Laura Burns, [designlab,inc](http://designlab.inc). Photo credits: Front cover: (from top to bottom) [stockolutions / Adobe Stock](#), [Jeff Perigois / Adobe Stock](#), [potowizard / Adobe Stock](#), [Travel mania / Adobe Stock](#), [Dauf / Adobe Stock](#), [alexleipz / Adobe Stock](#), background: [alexleipz / Adobe Stock](#); p. iii: [stockolutions / Adobe Stock](#); p. v: [Jeff Perigois / Adobe Stock](#); p. vii: [potowizard / Adobe Stock](#); p. viii: (from top to bottom) [Евгения Селиверстова / Adobe Stock](#), [Leonardo / Adobe Stock](#), [Agencja Fotograficzna Caro / Alamy Stock Photo](#), background: [Jeff Perigois / Adobe Stock](#); p. 7: [Imaginechina Limited / Alamy Stock Photo](#); p. 8: [komsкая / Alamy Stock Photo](#); p. 13: [Agencja Fotograficzna Caro / Alamy Stock Photo](#); p. 28: [Alex Leipz / Adobe Stock](#); p. 40: [ZUMA Press, Inc. / Alamy Stock Photo](#); p. 43: [Duby Tal / Albatross / Alamy Stock Photo](#); p. 61: [Travel mania / Adobe Stock](#); p. 62: [Dauf / Adobe Stock](#)

Limited Print and Electronic Distribution Rights

This publication and trademark(s) contained herein are protected by law. This representation of RAND intellectual property is provided for noncommercial use only. Unauthorized posting of this publication online is prohibited; linking directly to its webpage on rand.org is encouraged. Permission is required from RAND to reproduce, or reuse in another form, any of its research products for commercial purposes. For information on reprint and reuse permissions, please visit www.rand.org/pubs/permissions.

About This Report

The rapid expansion of Chinese economic engagement in the developing world over the past decade has raised U.S. and allied concerns that Beijing is weaponizing development assistance to weaken the United States' relative position and achieve China's broader national security interests abroad. In the United States, policy discussion has focused on the need to better use existing development tools to match Chinese efforts—such as the financing of large infrastructure projects in the developing world—in kind. Although such calls to strengthen U.S. development assistance as a tool for economic statecraft have grown ubiquitous in foreign policy circles, these calls often suffer from a fundamental problem of *mirror-imaging*: They are biased toward solutions that mimic China's behavior without regard for how China's approach might be driven by unique experiences, policy preferences, and domestic pressures that are at odds with the United States' own interests.

In this report, we conduct a net assessment of U.S. and Chinese development assistance and cooperation. We describe each country's differing approaches to economic engagement with developing countries and conduct a data-driven comparison to identify strategic asymmetries that could present opportunities for the United States to better compete with China for relationships and influence in the developing world.

This assessment reveals several key findings, including that Chinese economic engagement in the developing world should not be conceptualized as aid or assistance and that this mischaracterization has potentially led to an overreliance on U.S. development tools as a primary response. Moreover, despite evidence of the short-term benefits that China might gain from its development financing, it is not clear whether these benefits are sustainable or effective over the long term when compared with the U.S. approach. Nevertheless, China's efforts—in particular, its heavy emphasis on energy and infrastructure projects, its approach to working through elite actors in developing countries rather than broad-based societal programming, and its willing embrace of greater risk and reduced transparency—still create challenges for the United States.

From these findings, we propose a series of actions that the United States can take to better align its development activities with U.S. national security objectives related to competition with China without sacrificing underlying U.S. normative goals of reducing global poverty and improving welfare in the developing world.

The research reported here was completed in March 2023.

RAND National Security Research Division

This research was conducted within the International Security and Defense Policy Program of the RAND National Security Research Division (NSRD). NSRD conducts research and analysis for the Office of the Secretary of Defense, the U.S. Intelligence Community, the U.S. State Department, allied foreign governments, and foundations.

For more information on the RAND International Security and Defense Policy Program, see www.rand.org/nsrd/isdp or contact the director (contact information is provided on the webpage).

Funding

Funding for this research was made possible by the independent research and development provisions of RAND's contracts for the operation of its U.S. Department of Defense federally funded research and development centers.

Acknowledgments

We would like to thank several individuals within the RAND Corporation for providing the support and resources necessary to conduct this effort. RAND-Initiated Research director Lisa Jaycox, Dean of the Pardee RAND Graduate School and Vice President of Innovation Nancy Staudt, and former Acting Director of the RAND International Security and Defense Policy Center Michael J. McNerney each provided encouragement and thoughtful suggestions throughout the project. Comments from Timothy Heath and Daniel Egel improved an early draft of this report, while Krishna Kumar of RAND and Franck Wiebe of Georgetown University offered insightful and detailed reviews that greatly improved the quality of this report. Laura Burns' design of this final publication was a major contribution to communicating the findings of this research.

We are also grateful to the development researchers and U.S. government officials who generously shared their time and insights on the challenges confronting the international community. All errors or omissions remain the sole responsibility of the authors.

Contents

About This Report	iii
Figures and Table	vii
Development Assistance and Cooperation as Tools of Economic Statecraft	1
Defining Development Assistance, Cooperation, and Economic Statecraft.....	2
The Chinese Approach: Transactions Abroad for Domestic Gain	4
The U.S. Approach: Seeking Stability Through Transformation	10
A Net Assessment of Competing Approaches.....	14
Steps to Enhance the Competitiveness of U.S. Development Assistance and Cooperation.....	45
Abbreviations.....	61
References	63



Figures and Table

Figures

Figure 1. China Outspends the U.S. Government in the Developing World, Primarily Through State-Owned Banks and Enterprises..... 20

Figure 2. The U.S. Private Sector Invests in the Developing World at Comparable Levels to China but Underinvests as a Percentage of Its Overall Efforts 22

Figure 3. China Relies Heavily on Loans; the United States Relies Heavily on Grants..... 24

Figure 4. China Focuses Directly on Economic Development, the United States Focuses More on Human and Social Development..... 29

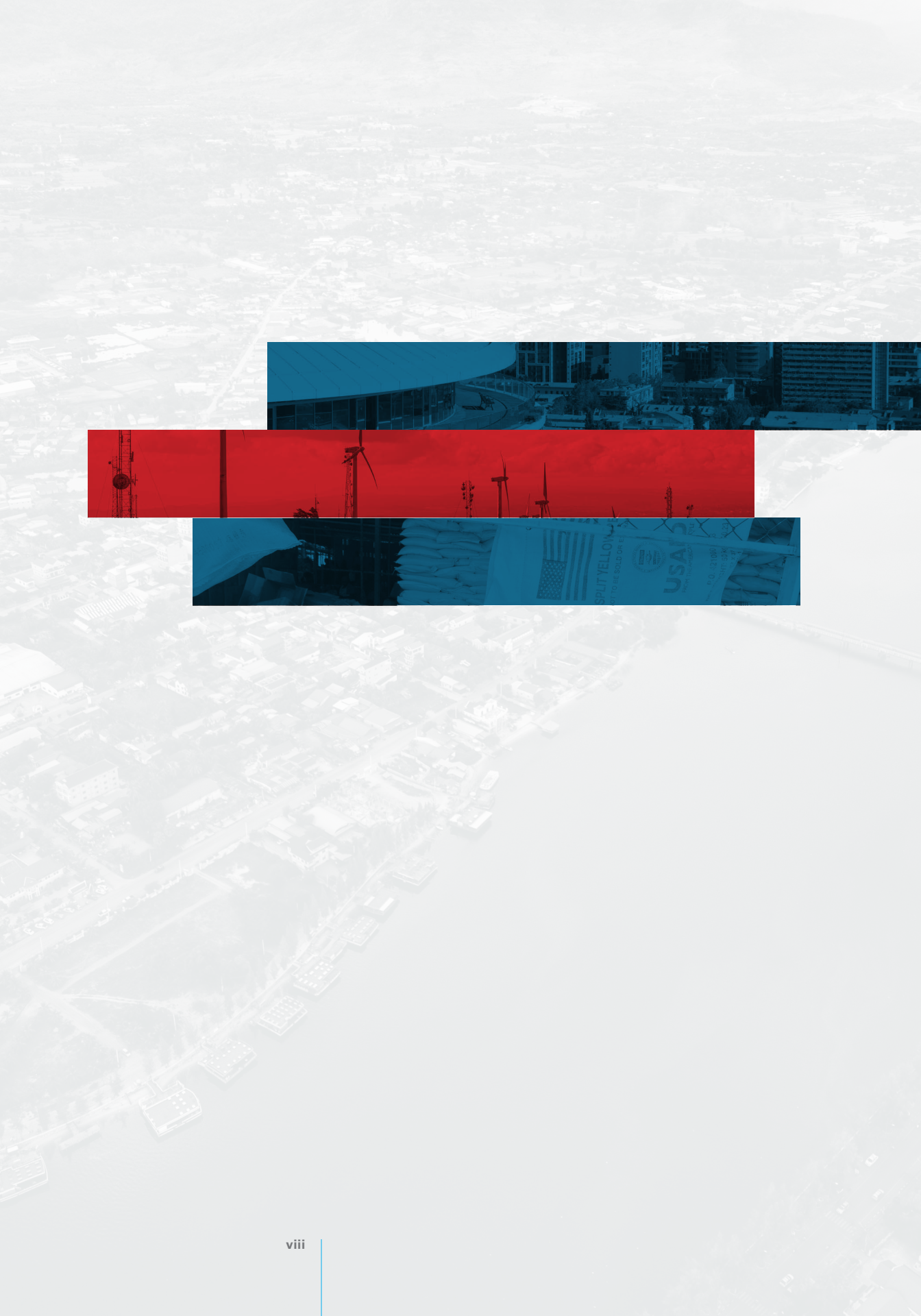
Figure 5. Chinese Development Spending Emphasizes More Than Infrastructure 31

Figure 6. Both China and the United States Directly Implement the Majority of Their Assistance Programs but Rely Differently on Recipient Nations and International Organizations..... 35

Figure 7. China Implements Its Projects Through SOEs and Recipient Governments; the United States Leans More Heavily on Private-Sector Actors 37

Table

Table 1. Piecing Together Data to Compare U.S. and Chinese Development Approaches.....17





Development as a Tool of Economic Statecraft

OVER THE PAST DECADE, China has upended the world of development assistance, rapidly becoming the world's largest bilateral lender by channeling large sums of money into the developing world. These financial flows are often aimed at supporting infrastructure projects as part of President Xi Jinping's signature Belt and Road Initiative (BRI), announced in 2013. As China's economic engagement in the developing world has grown, so too have U.S. and allied concerns that China is leveraging development assistance to assert Chinese influence, weaken the United States' relative position, and achieve Beijing's broader national security interests.¹

In the United States, development assistance is often seen as a normative tool, intended to build the capacity of developing countries and promote fundamental human rights and shared values. U.S. development projects are often framed as consistent with, but not driven by, U.S. security interests (at least in theory, if not in practice). However, China's increased engagement in the developing world has spawned discussion of the need to retool America's development playbook for competition with China.² This discussion has focused on the need to better leverage existing development tools to enhance U.S. influence and to help insulate developing countries from the financial and political risks inherent in China's expansive lending efforts. In not-so-subtle nods toward China's BRI, the United States announced the new Partnership for Global Infrastructure and Investment (PGII) effort and chartered a development finance corporation to finance capital-intensive projects in the developing world.³

Although such calls to strengthen U.S. development assistance as a tool for economic statecraft have grown ubiquitous in foreign policy circles, these calls frequently suffer from a fundamental problem of *mirror-imaging*, in which proposed solutions are biased toward mimicking China's behavior. China's widely publicized focus on financing large infrastructure projects in the developing world has therefore prompted some U.S. foreign

In the United States, development assistance is often seen as intended to build the capacity of developing countries and promote fundamental human rights and shared values.

1 Jacob J. Lew, Gary Roughead, Jennifer Hillman, and David Sacks, *China's Belt and Road: Implications for the United States*, Council on Foreign Relations, 2021.

2 For examples of entries to this debate, see Daniel F. Runde, "A New Approach to Foreign Aid," Center for Strategic and International Studies, December 17, 2020; Jim Richardson, "To Win Friends and Influence People, America Should Learn from the CCP," *Foreign Policy*, July 22, 2021.

3 The White House, "Fact Sheet: President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment," June 26, 2022a; Michael R. Pompeo, "Landmark Development Finance Legislation Improves America's Competitiveness Overseas," press statement, U.S. Department of State, October 3, 2018.

It is increasingly difficult to distinguish aid from other forms of economic engagement in developing countries.

policy pundits to call for the United States to embrace similar financing in response. And where China often uses loans to finance investments overseas and gain influence with those governments, these observers argue that the United States should more frequently condition its development aid on support for U.S. foreign policy objectives. But these recommendations fail to account for the distinct reasoning that drives both country's engagement in the developing world and the broader systemic risks that arise from their preferred approach.

In this report, we take a new approach. We conduct a data-driven net assessment of U.S. and Chinese development assistance and cooperation as tools of each country's approach to economic statecraft. We seek to understand opportunities for the United States to better compete with China in the developing world by providing a broader, systematic analysis of each country's own strategies, policies, practices, and institutions. Through an examination of their differing approaches and the interaction between their different models, we cast light on how the United States and China seek to expand their influence and advance their foreign policy objectives in the developing world.

Defining Development Assistance, Cooperation, and Economic Statecraft

Part of the challenge in comparing U.S. and Chinese approaches to development assistance and cooperation is that it is increasingly difficult to distinguish such aid from other forms of economic engagement in developing countries. The Organization for Economic Cooperation and Development (OECD) defines *official development assistance* (ODA) as "government aid that promotes and specifically targets the economic development and welfare of developing countries."⁴ This implies that such assistance is provided to build the economic capacity of the recipient nation rather than to primarily fulfill an economic or security benefit of the donor nation.

But China is not a member of the OECD's Development Assistance Committee (DAC), does not classify itself as a donor country, and does not subscribe to the DAC's standards for ODA.⁵ Instead, Chinese efforts under the BRI often take the form of *development finance*, a related and often overlapping category of economic activities that encompasses bilateral development assistance flows, other official bilateral flows that are not grants or loans for commercial purposes, and "all grants and loans by multilateral development institutions, irrespective of the grant element of the loans."⁶

Further complicating matters, China blends other forms of economic investment alongside its financing efforts, including "direct investment[s], service contracts, labor cooperation, [and]

4 OECD, "Official Development Assistance (ODA)," webpage, undated-f.

5 Leah Lynch, Sharon Andersen, and Tianyu Zhu, *China's Foreign Aid: A Primer for Recipient Countries, Donors, and Aid Providers*, Center for Global Development, July 2020.

6 OECD, "DAC Glossary of Key Terms and Concepts," webpage, undated-b.



foreign trade and export” activities undertaken by governmental and state-owned enterprises (SOEs).⁷ This approach blurs the line between formalized assistance intended to promote the welfare of the recipient country, state-directed investments in emerging markets for the primary benefit of Chinese entities, and commercial investments made solely for profit.⁸ And because Chinese leaders maintain that China itself remains a developing country, Chinese development institutions and officials rarely describe their own activities as *assistance*, instead referring often to *development cooperation* with other countries. From the Chinese perspective, this phrase (1) better captures the unique variety of development assistance, financing, and investment activities that China employs in the developing world and (2) helps convey notions of mutual benefit and learning between donor and recipient countries.¹⁰

Acknowledging these terminological challenges, we use the phrase *development assistance and cooperation* throughout this report for ease of discussion. When feasible, we describe, using official definitions and standards, the types of development assistance and cooperation provided by China or the United States. However, we are careful to explain and explore how other forms of state-directed or state-financed investments beyond just ODA are part of each country’s broader economic engagement in the developing world. We explore not just China’s use of such tools—which are difficult to disaggregate from official forms of Chinese aid in available data¹¹—but also the United States’ leveraging of analogous approaches outside its traditional development toolkit to pursue foreign policy objectives in the developing world.

To this end, we explore how both countries employ assistance and financing for developing countries as tools of *economic statecraft*, which refers to an approach to achieving a country’s foreign policy and national security objectives through using economic, financial, and commercial mechanisms to influence the behavior of other countries in advantageous ways.¹² In the United States, economic statecraft is often associated with macro-level policy tools that open or close opportunities for U.S. private-sector engagement, such as free trade agreements,

7 Yun Sun, “China’s Aid to Africa: Monster or Messiah,” Brookings Institution, February 7, 2014, citing Piao Yingji, “The Evolution and Future Trend of China’s Direct Investment in Africa,” 2006.

8 Sun, 2014.

9 On China’s claim that it is a developing country, see Matt Ferchen, “How China Is Reshaping International Development,” Carnegie Endowment for International Peace, January 8, 2020.

10 Marina Rudyak, “The Past in the Present of Chinese International Development Cooperation,” *Made in China Journal*, Vol. 6, No. 2, May–August 2021.

11 These data limitations pose clear challenges for this analysis in comparing disparate forms of assistance documented by different sources over different periods. We document these limitations—the greatest of which is that no project-level data on Chinese development cooperation and financing efforts are publicly available post-2017—in a transparent manner throughout this report.

12 For greater discussion, see Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman, “The Political Economy of National Security: Economic Statecraft, Interdependence, and International Conflict,” *Security Studies*, Vol. 9, No. 1–2, 1999.

tariffs, or sanctions.¹³ But China's approach under the BRI represents a comparably ambitious strategy for economic statecraft through state-directed development—an effort to secure not just friendly export markets for Chinese goods but also to build a network of nations within China's sphere of influence at scale.¹⁴

The Chinese Approach: Transactions Abroad for Domestic Gain

Through ambitious spending programs, such as the BRI, and newer institutions, such as the Asian Infrastructure Investment Bank and New Development Bank, Beijing employs development assistance and cooperation to assert its status as a global economic power, create new economic linkages, secure critical resources and strategic facilities, expand its influence, and coerce other states to abide by or support Chinese policies in other forums.

China does not limit its use of these tools to low-income countries. Its approach to the developing world is, however, rooted in a series of unique domestic, political, and ideological incentives that reflect the country's own rapid economic transformation during the latter half of the 20th century. China historically has emphasized its role in economic cooperation with developing countries out of a broader spirit of global South-South cooperation.¹⁵ Citing its own economic development as a model, Chinese government sources have described such cooperation as an opportunity to formulate new "rules of the game" within the Global South and thereby challenge existing economic norms set by the United States and Europe in the process.¹⁶

Although this focus on the Global South is an essential component of China's rationale for increasing engagement in the developing world, internal political considerations also inform Beijing's approach. Like other aspects of its foreign policy, Beijing views its development efforts abroad as a means to satisfy domestic constituencies and quell potential sources of social and civil unrest that could threaten the legitimacy and survival of the Chinese Communist Party (CCP).¹⁷ Accordingly, ambitious

13 See, for example, Christopher S. Chivvis and Ethan Kapstein, *U.S. Strategy and Economic Statecraft: Understanding the Tradeoffs*, Carnegie Endowment for International Peace, April 2022; Elizabeth Rosenberg, Peter Harell, Paul J. Dobriansky, and Adam Szubin, *America's Use of Coercive Economic Statecraft: Report from Select Members of the CNAS Task Force on the Future of U.S. Coercive Economic Statecraft*, Center for a New American Security, December 2020.

14 See, for example, Xue Gong, "China's Economic Statecraft: The Belt and Road in Southeast Asia and the Impact on the Indo-Pacific," *Security Challenges*, Vol. 16, No. 3, 2020.

15 See Andrew Scobell, Bonny Lin, Howard J. Shatz, Michael Johnson, Larry Hanauer, Michael S. Chase, Astrid Stuth Cevallos, Ivan W. Rasmussen, Arthur Chan, Aaron Strong, Eric Warner, and Logan Ma, *At the Dawn of Belt and Road: China in the Developing World*, RAND Corporation, RR-2273-A, 2018.

16 See, for instance, Permanent Mission of the People's Republic of China to the UN, "China's Stand on South-South Cooperation," August 18, 2003.

17 Sun, 2014. For instance, one recent study of Chinese project-level aid data and administrative firm-level data found that the central government often allocates foreign aid contracts to state-owned firms in areas that have experienced recent political and labor unrest (see Joris Mueller, "China's Foreign Aid: Political Determinants and Economic Effects," working paper, 2022).

Chinese financing and loans to the developing world are more than just a tool for cooperation with the Global South; they also help fuel economic activity and growth at home that undergirds China's political system. Chinese leaders face significant economic challenges arising from overcapacity within Chinese labor and manufacturing sectors. As a result, Chinese officials have historically embraced development efforts abroad to create outlets for excess Chinese financing and industrial products.¹⁸

The origins of this strategy trace back to the 1990s, when Chinese authorities “began to expand the meaning of ‘foreign policy,’ or ‘diplomacy’ (*waijiao*), to incorporate economics as a distinct subtopic.”¹⁹ China's dependence on domestic investment and exports as drivers of its own economic development increased senior CCP leaders' desires to build stable and favorable international markets abroad. In 1998, President Jiang Zemin directed a new focus on “international cooperation and competition” to “make full use of opportunities” and promote a “new international political and economic order.”²⁰ At the Fourth Plenum of the Fifteenth Party Congress the following year, the CCP adopted the “Going Out” policy, which relaxed restrictions on Chinese market activities and encouraged SOEs to establish foreign branches and explore international markets.²¹ Most of this new outward investment was conducted by SOEs pursuing access to natural resources, development and diversification of new markets (in part to offset competition in the Chinese market), investment in strategically located infrastructure, and efforts to move low-technology and labor-intensive activities overseas amid rising domestic costs.²²

The outward flow of Chinese financing increased rapidly during the 2000s as a result of these policy changes. During the State Council's first national work conference on economic diplomacy in 2004, Premier Wen Jiabao emphasized the particular importance of engaging developing countries and “diversifying” the methods of economic collaboration through the “integration

Chinese officials have historically embraced development efforts abroad to create outlets for excess Chinese financing and industrial products.

18 Longcan Zou, Jim Huangnan Shen, Jun Zhang, and Chien-Chiang Lee, “What Is the Rationale Behind China's Infrastructure Investment Under the Belt and Road Initiative,” *Journal of Economic Surveys*, Vol. 36, No. 3, July 2022. Looking at African markets, other analysis has found a positive relationship between Chinese official development aid and export biases in favor of China that suggests Beijing has effectively used ODA to secure privileged access to African resources and markets (see Tarek M. Harchaoui, Robert K. J. Maseland, and Julian A. Watkinson, “Carving Out an Empire? How China Strategically Uses Aid to Facilitate Chinese Business Expansion in Africa,” *Journal of African Economies*, Vol. 30, No. 2, March 2021).

19 Timothy R. Heath, “China's Evolving Approach to Economic Diplomacy,” *Asia Policy*, No. 22, July 2016, p. 165. For a concise overview of Chinese approaches to assistance between 1950 and 1999, see Jingdong Yuan, Fei Su, and Xuwan Ouyang, *China's Evolving Approach to Foreign Aid*, Stockholm International Peace Research Institute, May 2022, pp. 4–7.

20 Heath, 2016, p. 165.

21 Melissa Murphy, “Issue in Focus: China's ‘Going Out’ Investment Policy,” Center for Strategic and International Studies, May 27, 2008, p. 3. Although Chinese outward investment began before this policy was enacted, 1999 marks the official watershed moment.

22 OECD, *OECD Investment Policy Reviews: China 2008*, 2008, pp. 93–102.

of trade with investment” and “foreign aid funds with credit funds.”²³ The conference produced a new plan directing several economic initiatives to promote Chinese influence abroad, including the construction of “signature projects,” increased investment abroad, and expanded cooperation with developing countries in international and multilateral economic and trade organizations.²⁴ Foreshadowing a push that would intensify following the 2008 global financial crisis, President Hu Jintao pledged in November 2004 to increase Chinese investments in Latin America, for example, by \$100 billion.²⁵

Since Xi Jinping’s rise to power as CCP general secretary in 2012, China has charted an even more assertive development policy. Following the announcement of the BRI in 2013, Beijing has made substantial commitments to what China calls South-South cooperation, pledged to provide sizeable financing and investments in African countries, and enshrined the BRI into the CCP’s constitution as an amendment to the People’s Republic of China’s (PRC’s) constitution (a description of one flagship project, which illustrates multiple vehicles of Chinese development cooperation, is provided in Box 1).²⁶

To oversee this increased volume of foreign financing and investment, reduce bureaucratic fragmentation, and elevate the role of foreign assistance in Chinese foreign policy, Beijing established the China International Development Cooperation Agency (CIDCA) in 2018.²⁷ Previously, responsibility for Chinese assistance policy, financing, and investments was shared across three coequal agencies—the Ministry of Commerce, the Ministry of Foreign Affairs, and the Ministry of Finance—but in some cases could require coordination with more than 20 national ministries, commissions, and agencies, in addition to numerous provincial entities.²⁸ Although CIDCA is mandated to improve coordination and information-sharing across the diffuse Chinese foreign assistance system, it remains to be seen whether the new agency will be able to overcome this bureaucratic fragmentation (as highlighted in Box 2).²⁹

23 Heath, 2016, pp. 165–166.

24 Heath, 2016, p. 166.

25 Larry Rohter, “China Widens Economic Role in Latin America,” *New York Times*, November 20, 2004. One analysis of resource-backed finance in Africa and Latin America found that more than 80 percent of the finance between 2003 and 2011 occurred following the 2008 global economic crisis (Deborah Bräutigam and Kevin P. Gallagher, “Bartering Globalization: China’s Commodity-Based Finance in Africa and Latin America,” *Global Policy*, Vol. 5, No. 3, September 2014).

26 Nadège Rolland, “A Concise Guide to the Belt and Road Initiative,” National Bureau of Asian Research, April 11, 2019.

27 Dan Banik, “Coordinating Chinese Aid in a Globalized World,” Carnegie Endowment for International Peace, January 2019.

28 Marina Rudyak, “The Ins and Outs of China’s International Development Agency,” Carnegie Endowment for International Peace, September 2, 2019.

29 Yuan, Su, and Ouyang, 2022, pp. 16–17.

Box 1

Exporting Chinese Expertise: The Addis Ababa–Djibouti Railway



Workers unloading goods brought by train through Addis Ababa–Djibouti railway

In late 2016, the Ethiopian and Djiboutian governments inaugurated the Addis Ababa–Djibouti railway. As the first standard gauge electrified railroad on the continent, the 759-km line reduced transit time between the cities from approximately three days to under 12 hours and granted land-locked Ethiopia access to Somali seaports and global maritime shipping lines.

One of nine national routes envisioned in the Ethiopian government master plan to stimulate industrial zone development and increase manufacturing, the new electrical rail replaced a French-constructed narrow-gauge railway built in the late 19th century. The Ethiopian government initially had approached the European Commission and the French Development Agency to rehabilitate the defunct railway, but negotiations were abandoned after Ethiopia determined neither could extend sufficient financing or concessions. In 2011, the government instead awarded contracts to two Chinese SOEs, the Civil Engineering Construction Company and China Railway Group. The following year, Djibouti selected a third SOE, China Railway Construction Corp, to complete a final section extending the rail to the Port of Djibouti, which sits on the Red Sea and Indian Ocean.

The Ethiopian government's agreement with the Export-Import Bank of China (CHEXIM), which financed 70 percent of the \$3.4 billion project includes a provision requiring the use of Chinese contractors to finalize construction. As a result, the Ethiopian government severed a contract with SweRoad, a Swedish engineering and management consulting company initially contracted to supervise construction on behalf of the Ethiopian government.

Although the railway has succeeded in easing the transport of Ethiopian goods and encouraged economic activity along its corridor, the project's broader economic effects have been mixed. Partially because of high-transport costs, commercial uptake has lagged behind projections, and imports still represent the majority of freight transported along the line. Frequent service disruptions have further reduced the railway's revenue generation and contributed to loan repayment problems. After Ethiopia deferred repayments on its loan in 2018, CHEXIM agreed to restructure portions of the loan, extending the repayment period from 10 to 30 years.

SOURCES: Tony Todd, "Chinese-Built Railway Opens Linking Ethiopia to Djibouti," *France24*, May 10, 2016; Andrew Jacobs, "Joyous Africans Take to the Rails, with China's Help," *New York Times*, February 7, 2017; Aaron Masho, "Ethiopia PM Says China Will Restructure Railway Loan," Reuters, September 6, 2018; Yunnan Chen, "Laying the Tracks: The Political Economy of Railway Development in Ethiopia's Railway Sector and Implications for Technology Transfer," Global Development Policy Center, Boston University, January 2021a; Yunnan Chen, "Addis–Djibouti Railway," *The People's Map of Global China*, April 8, 2021b.

Box 2

Major Actors in Chinese Development Cooperation



China Development Bank (CDB): finances foreign development projects in line with State Council directives, with an emphasis on large-scale infrastructure.

China International Development Cooperation Agency (CIDCA): established in 2018, functions as the principal coordinator of Chinese development coordination activities; reports to the State Council.

China Road and Bridge Corporation (CRBC): a state-owned, global civil engineering and construction company. Initially established under the Foreign Aid Office of the Ministry of Communications of China, it is now a subsidiary of the majority-state owned but publicly traded China Communications Construction Company.

Export-Import Bank of China (CHEXIM): provides loans for foreign trade and provides export credits and guarantees for trades and “going global” projects.

Ministry of Commerce, Department of Foreign Aid: manages the PRC’s foreign aid portfolio, selects and manages programs, and facilitates contacts among Chinese firms, SOEs, and recipient governments.

Ministry of Finance, Department of International Financial Cooperation: manages China’s overall foreign aid portfolio, selects and manages programs, and facilitates contact between Chinese firms and recipient governments.

State-Owned Enterprises (SOEs): businesses established by local, provincial, and national state entities to implement the owner government’s commercial, financial, and fiscal policies; function as implementer and client of development projects.

China has not, however, adopted other prevailing norms within the international development community. China is a signatory to the Paris Declaration on Aid Effectiveness, which seeks to “improve the quality of aid and its impact on development,” but China does not consistently abide by the declaration’s principles.³⁰ For instance, Chinese stakeholders reject the premise that transparency improves aid effectiveness and have resisted pressure to adopt public accountability standards.³¹ Chinese officials employ alternate terms—such as *development cooperation*, *development coordination*, *foreign aid*, *mutual assistance*, and *South-South cooperation*—to describe their approach in the developing world.³² This is more than a mere semantic distinction. In practice, China neither “distinguishes between the grants and loans it furnishes nor offers detailed information about aid disbursements to individual countries.”³³ As a result, Chinese efforts do not meet international criteria defining and tracking *official development assistance* flows abroad, complicating the ability for policymakers and researchers to understand how China’s efforts compare with and affect development programming by other donor nations.

KEY TAKEAWAYS

- China’s approach to development assistance and cooperation is heavily influenced by its own domestic economic priorities.
- China operates outside existing norms for development assistance established by the OECD.
- Chinese development policy and implementation efforts are spread widely across various official government agencies and state-owned banks (SOBs) and SOEs.

30 OECD, *Paris Declaration on Aid Effectiveness*, 2005. The Paris Declaration outlines five tenets for aid effectiveness: (1) developing country ownership over strategies for poverty reduction, institutional development, and good governance; (2) greater alignment between the objectives of donor and recipient countries; (3) harmonization and improved coordination of aid among donor countries; (4) improved management to achieve measurable results; and (5) greater donor and partner accountability for achieving development results.

31 Mario Esteban and Iliana Olivé, “China and Western Aid Norms in the Belt and Road: Normative Clash or Convergence? A Case Study on Ethiopia,” *Journal of Contemporary China*, Vol. 31, No. 134, 2022, pp. 279–281.

32 The term *common development* has appeared more frequently since the announcement of the BRI in 2013 (see The State Council Information Office of the People’s Republic of China, *China’s International Development Cooperation in the New Era*, Beijing, January 2021; Jacob Mardell, “Development Coordination: Foreign Aid with Chinese Characteristics,” Mercator Institute for China Studies, August 7, 2018; Rudyak, 2019).

33 Banik, 2019.

The U.S. Approach: Seeking Stability Through Transformation

Recognizing the challenges posed by China's BRI and broader economic engagement in the developing world, the United States has sought to elevate the role of development as a tool for advancing U.S. national interests abroad alongside more-traditional instruments of national power, such as defense and diplomacy.³⁴ Since 2021, the United States, in concert with other Group of Seven countries, has announced ambitious new initiatives to mobilize hundreds of billions of dollars in investment for global infrastructure projects under the banner of the Build Back Better World (B3W) initiative,³⁵ later rebranded as the Partnership for Global Infrastructure and Investment (PGII).³⁶ Through B3W, PGII, and other similar efforts, the United States has signaled a growing desire to provide an alternative to Chinese development financing as part of a more proactive approach to leveraging economic and financial tools to pursue U.S. national security interests. This renewed policy focus also reflects a widely held perception that Chinese-funded investments are not structured in the interest of recipient countries.³⁷

This more recent public emphasis on development assistance and cooperation as an instrument to project U.S. national security interests (and as a means to compete with China) differs from the United States' rhetorical emphasis on universal objectives since the end of the Cold War. For much of this period, U.S. leaders sought to publicly emphasize the promotion of democratic values, human rights, public health, and prosperity as universal aims and to downplay the implications of U.S. development assistance for security interests.³⁸ USAID's own history highlights that the organization's priorities have since the 1990s centered on "sustainable development, or helping countries improve their own quality of life" and helping "establish functioning democracies with open, market-oriented economic systems and responsive social safety nets."³⁹ This approach aims, arguably, to promote broader stability in developing countries through efforts to transform local societies, economies, and political systems.

34 The White House, *National Security Strategy*, October 2022b, pp. 11, 19–20. This also includes efforts to elevate the administrator of the U.S. Agency for International Development (USAID) to a National Security Council seat and proposals for a 10-percent increase in funding for USAID and the State Department in the fiscal year 2022 budget (see Michael Igoe and Adva Saldinger, "Biden Proposes \$6.8B Boost for US International Budget," Devex, April 9, 2021).

35 The White House, "Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," June 12, 2021.

36 The White House, 2022a.

37 Elizabeth C. Losos and T. Robert Fetter, "Building Bridges? PGII Versus BRI," *Future Development* blog, Brookings Institution, September 29, 2022.

38 See, for instance, George W. Bush, "Remarks to the United Nations Financing for Development Conference in Monterrey, Mexico," American Presidency Project, March 22, 2002; Barack Obama, "Remarks at the Millennium Development Goals Summit in New York City," September 22, 2010; The White House, "Remarks by the President on Sustainable Development Goals," press release, September 27, 2015.

39 USAID, "USAID History," webpage, undated.

The recent resurgence of interest belies, however, the practice's long historical roots. Following the end of World War I, the American Relief Administration continued to provide food, loans, and technical assistance to Europe as part of a policy guided by both altruism and national interest to restore stability. Even as the United States withdrew its forces from the continent, American food shipments fed millions, but they also provided a means to dispose of surpluses in wheat and other commodities caused by record production levels during the war.⁴⁰ Foreshadowing the ideological concerns that would shape U.S. development policy during the latter half of the century, U.S. policymakers also hoped that "full stomachs [would mean] no Bolsheviks" in Europe, as Secretary of State Robert Lansing put it at the time.⁴¹ Two decades later, the United States returned to a similar policy formula after the end of World War II. The primary purpose of the Marshall Plan, which funded reconstruction and economic development programs, was to avert another war while containing and denying communist expansion into Western Europe, promoting a liberal democratic capitalist model of development, and maintaining U.S. access to critical strategic locations necessary to deter the Soviet Union.⁴²

Altogether, changing U.S. motivations for conducting development assistance abroad—in particular, the willingness of U.S. policymakers to make overt linkages between U.S. national security goals and development tools—has largely been reflected in ebbs and flows in total U.S. funding levels for development efforts writ large. Funding for U.S. development programs declined after the fall of the Berlin Wall only to rise again following the declaration of the Global War on Terror, in part because of the sizable increase of investment in nation-building programs in Afghanistan and Iraq.⁴³

The United States' competing security-based and values-based rationales for development assistance have not precluded it from simultaneously pursuing other objectives. Like China, the United States uses development assistance and cooperation to pursue national economic and commercial interests, just in more-limited forms.⁴⁴ Beyond their immediate humanitarian use, U.S. food assistance programs also benefit U.S. producers and consumers by increasing agricultural exports and generating technological and technical innovations, among other benefits.⁴⁵ Unlike China,

40 Frank Costigliola, *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe, 1919–1933*, Cornell University Press, 1984, pp. 42–54.

41 Costigliola, 1984, p. 41.

42 Michael E. Latham, *The Right Kind of Revolution: Modernization, Development, and U.S. Foreign Policy from the Cold War to the Present*, Cornell University Press, 2011; Sara Lorenzini, *Global Development: A Cold War History*, Princeton University Press, 2019.

43 Homi Kharas, *Trends and Issues in Development Aid*, Brookings Institution, November 2007; James McBride, "How Does the US Spend Its Foreign Aid?" Council on Foreign Relations, October 1, 2018.

44 Marian L. Lawson, and Emily M. Morgenstern, *Foreign Aid: An Introduction to U.S. Programs and Policy*, Congressional Research Service, R40213, updated April 16, 2019.

U.S. development assistance and cooperation is . . . a low-ranking concern for the U.S. public.

however, the success of these programs in driving domestic economic activity is less tied to concerns over potential domestic stability and political legitimacy. Indeed, U.S. development assistance and cooperation is, with few exceptions, a low-ranking concern for the U.S. public and is often treated as a political nonissue.

How the United States should balance the security and non-security components of its international development programs is clearly the source of an enduring debate within U.S. foreign policy circles, even as the prospect of incorporating national security considerations to guide programming decisions is often derided within U.S. development circles. There is disagreement even over the appropriate linkage between U.S. democracy promotion and development aid and the requirement that U.S. aid recipients meet specific governance standards.⁴⁶ These debates are further complicated by the sheer number of federal and private actors involved in designing, funding, and executing U.S. development assistance and cooperation policy and programming (see Box 3 for a discussion of the myriad government agencies and key actors involved). Because of the scale and variety of U.S. programs and tools at stake, nearly every agency or department within the U.S. government plays some role in the process in pursuit of their own policy objectives, from labor market promotion to educational assistance to agricultural development and more. Beyond the executive branch, multiple congressional committees overseeing foreign affairs, agriculture, commerce, and financial services control funding levels, provide policy oversight, and approve the establishment of new development-related institutions.⁴⁷

This complexity makes it difficult to develop a comprehensive picture of U.S. development assistance and cooperation, produces redundancies and occasional contradictions in U.S. policy, and makes coordination more challenging. For instance, the Department of State and USAID perform many overlapping tasks in areas of foreign assistance, governance promotion, and capacity-building, among other issues.⁴⁸ These coordination challenges are not unique to the development space, but they stand to impede U.S. attempts to leverage development assistance and cooperation to advance U.S. national security objectives in a coordinated fashion.

45 David Kraybill and Stephanie Mercier, *How the United States Benefits from Agricultural and Food Security Investments in Developing Countries*, International Food Policy Research Institute, 2019, pp. 22–33.

46 Thomas Carothers, “Democracy Support and Development Aid: The Elusive Synthesis,” *Journal of Democracy*, Vol. 21, No. 4, October 2010.

47 Lawson and Morgenstern, 2019.

48 Renanah Miles, “The State Department, USAID, and the Flawed Mandate for Stabilization and Reconstruction,” *Prism*, Vol. 3, No. 1, December 2011.

Box 3

Major Actors in U.S. Development Cooperation



Agency for International Development (USAID): leading provider of U.S. ODA; designs and implements economic and social development, disaster assistance, global health, and democracy programs.

Department of State: manages and co-manages a variety of assistance programs by setting overall policy, directing funds, and determining a country's eligibility to receive certain categories of assistance. Its Office of U.S. Foreign Assistance establishes standard program structures and performance indicators; coordinates policy, planning, and performance management efforts; plans and funds feasibility studies, reverse trade missions, and pilot projects; and provides strategic direction.

Department of Treasury, Under Secretary for International Affairs: manages U.S. relations with multilateral development institutions and leads foreign debt reduction and emergency financing policy; provides bilateral technical assistance on economic reform.

Export-Import Bank of the United States (or U.S. Export-Import Bank): provides export credit loans, loan guarantees, insurance, and other financial support to facilitate the export of U.S. goods and services.

International Development Finance Corporation (DFC): partners with the U.S. private sector to provide financing to development projects in low- and middle-income countries. Authorized in 2018 and established in 2020, it replaced the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority.

Millennium Challenge Corporation (MCC): grants five-year development assistance compacts to countries selected based on good governance, economic freedom, and citizen-focused investment.

Trade and Development Agency: funds feasibility studies, reverse trade missions, and pilot projects to create export opportunities and markets for infrastructure projects.

U.S. Congress: plays a role in establishing, funding, and providing oversight to U.S. aid programs through multiple House and Senate authorizing committees and appropriations subcommittees, including the Senate Committee on Foreign Relations and House Committee on Foreign Affairs, which oversee bilateral development assistance, economic security assistance, and international organizations; the House and Senate Financial Services Committees, which exercise jurisdiction over U.S. contributions to multilateral development banks; and the House and Senate Agriculture Committees, which have primary jurisdiction over food assistance.

KEY TAKEAWAYS

- The United States has often emphasized development assistance as an instrument to support developing countries' own objectives for sustainable economic growth and societal transformation in pursuit of shared norms and values.
- The United States has a long-standing tradition of leveraging development assistance and cooperation as tools for achieving national security and foreign policy objectives.
- Changes in U.S. national security priorities have contributed to changes in the volume and nature of U.S. development assistance over time.
- U.S. development policy and implementation responsibilities are fragmented across the U.S. government, posing challenges for bureaucratic coordination.

A Net Assessment of Competing Approaches

Understanding general U.S. and Chinese rationales for development assistance and cooperation is a necessary first step toward identifying the relative strengths and limitations of the U.S. approach. To identify opportunities to better leverage U.S. development policy, however, greater consideration of the interaction between these differing approaches—and, in particular, the effect of Chinese approaches on the United States' ability to achieve its objectives—is necessary. Using detailed project-level data on U.S. and Chinese development spending, we present a net assessment of each country's approach across several salient factors, looking to identify strategic asymmetries that could point to opportunities for the United States to better compete with China.⁴⁹ Specifically, we examine the variation and interaction between the two countries' approaches across five key factors:

- 1 the volume and sources of funding for development assistance and cooperation
- 2 the funding mechanisms or vehicles used to provide development assistance and cooperation
- 3 the sectors targeted by such programs and activities
- 4 the implementers used to execute these programs and activities
- 5 the conditionality of such assistance, financing, and cooperation.

49 For more on net assessment in the development context, see Anne Marie Spevacek, *Net Assessment: Overview and Resources*, USAID, June 28, 2017, p. 3.



These factors aim to capture and compare some of the most salient features of each country's approach to development assistance and cooperation that are measurable with existing data. These features include the overall scale, form, and targets of each country's assistance; the key actors involved; and the strings attached to such assistance when provided. Other factors—such as when each country chooses *not* to provide development assistance, or when a country prioritizes other approaches to achieving its objectives beyond development tools—are perhaps equally important but harder to measure. We discuss these considerations in qualitative detail throughout the report when feasible.

Ultimately, our method is designed primarily to avoid frequent pitfalls in recommending new U.S. development approaches that assume that the United States should replicate Chinese activities. Whether Beijing's approach to development will enable China to achieve its foreign policy objectives remains to be seen. As the previous sections describe, China and the United States conceptualize development differently and are pursuing different objectives. Accordingly, our analysis seeks to enable direct comparison while accounting for differing aims and interests.

METHODOLOGY FOR BUILDING A COMMON PICTURE OF U.S. AND CHINESE DEVELOPMENT DATA

To analyze U.S. and Chinese development assistance and cooperation across these factors, we must first build a common frame of data across both countries. As discussed, China's approach to development assistance and cooperation (largely through the BRI) does not comport with official OECD standards for development aid, and Chinese institutions do not report levels of assistance through existing global reporting systems that could allow for a comparison.⁵⁰ As a result, the most-comprehensive public data available on Chinese development financing efforts is produced by AidData, a private research organization at the College of William & Mary that maintains an authoritative dataset on Chinese lending efforts in the developing world.⁵¹

50 On China's secrecy regarding its foreign development activities, see Axel Dreher, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney, *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*, Cambridge University Press, 2022, pp. 64–71.

51 Dreher et al., 2022.

China's efforts often blur the line between ODA and other forms of state-directed investments.

This dataset uses a novel methodology for tracking underreported financial flows into the developing world from Chinese sources: In addition to tracking ODA and other official financial flows (including official development financing [ODF]), the methodology also tracks other forms of (1) export-import promotion and (2) state-directed lending and investment by China that do not fit neatly into OECD DAC definitions.⁵² For the purposes of our net assessment, we exclude from AidData's records those Chinese projects that were cancelled, suspended, or represent unfulfilled pledges by Chinese actors to provide future financing. Furthermore, we focus on the subset of Chinese projects that occur in DAC-eligible recipient countries.⁵³

Although AidData represents the primary source of data on Chinese development financing, the challenge is identifying a common frame of reference to compare these data with analogous U.S. assistance in a comprehensive manner. Because China's efforts often blur the line between ODA and other forms of state-directed investments in emerging markets (often through Chinese SOEs), data on U.S. ODA alone are insufficient. As a result, we supplement these data (which include both bilateral and multilateral assistance from the United States) with a variety of additional data sources when feasible. We are careful to highlight where these data might provide an incomplete picture relative to comparable Chinese efforts captured in AidData and, vice versa, where Chinese efforts captured in AidData are not perfect analogues to official statistics on U.S. engagement in the developing world.

Table 1 summarizes this approach and highlights where each source of data on development assistance and cooperation possesses sufficient granularity to enable clear comparisons of U.S. and Chinese programs and activities across each of the five factors in our net assessment.

52 For more on AidData's methodology, see Samantha Custer, Axel Dreher, Thai-Binh Elston, Andreas Fuchs, Siddharta Ghose, Joyce Jiahui Lin, Ammar A. Malik, Bradley C. Parks, Brooke Russell, Kyra Solomon, Austin Strange, Michael J. Tierney, Katherine Walsh, Lincoln Zaleski, and Sheng Zhang, *Tracking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology*, AidData at William & Mary, 2021.

53 To identify DAC-eligible recipient countries in the period analyzed for this report (2013–2017), we used OECD, "DAC List of ODA Recipients: Effective for Reporting on 2014, 2015, 2016, and 2017 Flows," undated-c. It is important to note that roughly 13 percent of the volume of all China's development-like projects (as captured in AidData's estimates) occurred in developed countries, which is a significant priority for China that is largely outside the purview of comparable U.S. development tools. This percentage excludes 200 out of the 5,564 projects (3.6 percent) that occurred in non-ODA-eligible countries between 2013 and 2017. These excluded projects represent more than 13 percent of the total volume of Chinese development projects by nominal spending (\$124 billion from 2013 through 2017). A comparative look at China's use of development assistance-like tools to finance projects in fully developed countries compared with analogous U.S. approaches is worthy of further research but outside the scope of this study.

Table 1

Piecing Together Data to Compare U.S. and Chinese Development Approaches

Country	Type of Assistance or Cooperation	Source of Data	Most Recent Data	Utility for Net Assessment				
				(1) Funding Volume & Source	(2) Funding Mechanism	(3) Sectoral Target	(4) Implementer of Aid	(5) Conditions on Aid
China	ODA, ODF, other official flows, export-import, other financing	AidData	2017	Yes	Yes	Yes	Yes	No
	FDI outflows	AEI and the Heritage Foundation	2022	Yes	No	No	No	No
United States	ODA	Foreign Assistance.gov dashboard	2021	Yes	Yes	Yes	Yes	No
	ODF	U.S. DFC	2021	Yes	Yes	Yes	No	No
	Export-Import promotion	U.S. Export-Import Bank	2021	Yes	Yes	No	No	No
	Nonprofit and NGO grants	OECD	2020	Yes	No	No	No	No
	FDI outflows	U.S. BEA	2022	Yes	No	No	No	No

SOURCES: Authors' analysis of data from AidData, "AidData's Global Chinese Development Finance Dataset, Version 2.0," dataset, September 2021; American Enterprise Institute and the Heritage Foundation, "China Global Investment Tracker," database, undated; ForeignAssistance.gov, database homepage, last updated July 29, 2022; DFC, "DFC Transaction Data," spreadsheet, last updated December 31, 2021; Export-Import Bank of the United States, "Authorizations from 10/01/2006 thru 3/31/2022," dataset, last updated August 18, 2022; OECD, "Grants by Private Agencies and NGOs," database, undated-e; U.S. Bureau of Economic Analysis, "U.S. Direct Investment Abroad: Financial Transactions Without Current-Cost Adjustment by Detailed Country, 2009–2019," spreadsheet, undated.

NOTE: *Yes* and *no* refer to our ability to use each dataset to reliably analyze each factor of our net assessment using available data. For example, data on U.S. export-import promotion are used in our analysis of funding volume and source and of funding mechanism but lack sufficient granularity to analyze sectoral targets consistently over time, the implementer of the aid, or the conditions attached to the aid. AEI = American Enterprise Institute; BEA = Bureau of Economic Analysis; DFC = Development Finance Corporation; FDI = foreign direct investment; NGO = nongovernmental organization.

The bulk of our analysis of U.S. development efforts comes from detailed activity-level data on U.S. ODA made publicly available by the U.S. Department of State and USAID via their foreign assistance dashboard.⁵⁴ These data capture the vast majority of U.S. development efforts by overall volume and are the most useful in terms of providing granular information on funding mechanisms, implementers, and sectors to enable our net assessment.

We supplement these data with a variety of additional sources of U.S. assistance. Data on U.S. ODF efforts are captured in official transaction data from the U.S. DFC, and we include these estimates when comparing overall volume, sources of funding, and funding vehicles used.⁵⁵ However, these data lack sufficient granularity to assess the precise implementers of programs financed by DFC in a manner directly comparable to Chinese financing efforts.⁵⁶

Given that China's approach relies heavily on its own SOEs to drive financing and investment efforts in developing countries, we should also incorporate data on U.S. private-sector investments in those same countries for an ideal comparison. Although the U.S. government plays no centralized role in directing or incentivizing such investments, the U.S. private sector—both corporations and NGOs—are nevertheless a significant resource for U.S. economic influence abroad, and we include data on their role in FDI and grantmaking to developing countries where applicable.⁵⁷ Where the U.S. government does play a role in channeling U.S. private-sector activity in the developing world—specifically through the U.S. Export-Import Bank—we also

54 ForeignAssistance.gov, 2022.

55 DFC, 2021. Of note, although these data are provided by DFC, we focus on a period (2013–2017) in which such financing efforts were conducted by DFC's predecessor organization, the Overseas Private Investment Corporation (OPIC). Although DFC's more-recent transaction data are slated to be included in the ForeignAssistance.gov dataset (in that ODF is a subset of ODA), OPIC's transactions were largely not incorporated in the dataset for the period we analyzed (2013–2017); therefore, OPIC's supplemental inclusion in our analysis avoids double counting. We confirmed this fact with our own comparison of both datasets, finding no evidence of double counting. For greater discussion of data availability, see George Ingram and Sally Paxton, "Testimony Before the US Development Finance Corporation," public hearing, Publish What You Fund and Friends of Publish What You Fund, December 10, 2020, p. 5.

56 Although it might be feasible to back out sectoral-level data from DFC's transaction dataset, it is unlikely that our analysis would prove compatible with coding rules applied to data on U.S. ODA via ForeignAssistance.gov. DFC data since 2017, when incorporated into ForeignAssistance.gov and coded in a compatible manner, should facilitate future analysis with more-recent data on Chinese financing to update our analysis.

57 To capture FDI in the developing world, we include data on nominal FDI outflows from the United States to DAC-eligible recipient countries drawn from U.S. Bureau of Economic Analysis, undated. Comparable Chinese FDI data are drawn from American Enterprise Institute and the Heritage Foundation, undated. We validate trends and rough order of magnitude for both datasets with outward FDI flows as measured by OECD, "FDI Flows," database, undated-d. For data on U.S. nonprofit and NGO grants to developing countries, we use OECD, "Grants by Private Agencies and NGOs," undated-e.



include data on export and import credits, insurance, and other assistance offered to U.S. private-sector entities for investments in developing countries.⁵⁸

LIMITATIONS OF THIS APPROACH

One final methodological constraint should be highlighted. Although data on U.S. ODA were available through more-recent years, data on Chinese development financing (through AidData) were available only through 2017 at the time of writing. As a result, we focus the data-driven portions of our net assessment on Chinese and U.S. development assistance and cooperation conducted over a five-year period from 2013 through 2017. Although imperfect, this time frame does have the benefit of occurring prior to major changes in each country's development priorities brought on by the beginning of the coronavirus disease 2019 (COVID-19) pandemic in early 2020. Throughout this report, we are careful to note where more-recent trends (since 2017) might differ using anecdotal sources of other data or more-recent research and analysis.

These efforts to build comparable datasets on U.S. and Chinese development assistance and cooperation are necessarily imperfect and imprecise. There is clear potential for future research to resolve these terminological and data challenges in order to foster more-precise comparisons between U.S. and Chinese approaches. There might even be additional sources of data not included in our analysis that we have omitted by mistake. Nevertheless, even imperfect comparisons have the potential to (1) reveal salient structural differences in the U.S. and Chinese approaches where they exist and (2) highlight opportunities for the United States to take advantage of such asymmetries to better compete with China in the developing world.

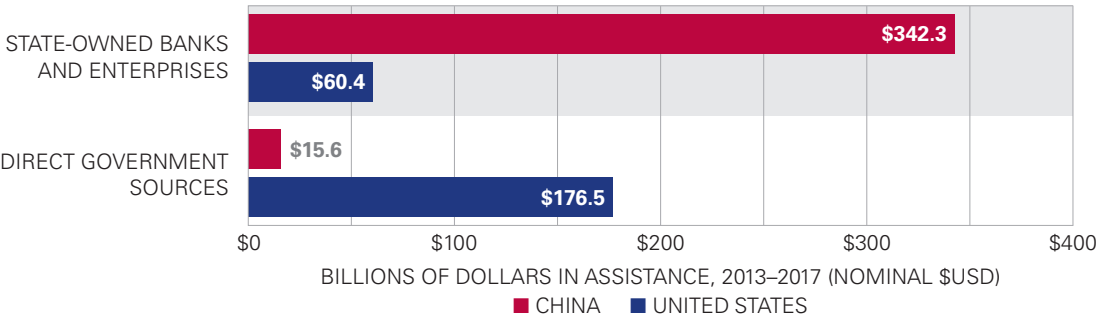
58 Export-Import Bank of the United States, 2022. These data lack a consistent sectoral categorization. Moreover, they lack a definitive coding of the target country for investment. We exclude transactions provided to support export-import activities expressly focused on developed countries (51 percent of all support by volume from 2013 through 2017, or \$30.5 billion). However, we do include roughly \$14.1 billion in export-import support coded as going to "Multiple – Countries," roughly 47 percent of the remaining records. Nevertheless, we incorporate these data in our overall assessments of funding volume and source to make a conservative estimate of the extent to which Chinese BRI investments outweigh U.S. financing efforts.

FACTOR 1: VOLUME AND SOURCE OF DEVELOPMENT FUNDING

We begin our net assessment with a comparison of the overall volume of development assistance and cooperation provided by China and the United States (Figure 1), broken down by the source of funding used to provide such assistance.

This analysis shows that, at face value, the U.S. government was outspent by China from 2013 through 2017 in terms of the overall volume of development assistance and financing provided over the period analyzed. This difference is particularly driven by China’s reliance on its own SOEs and SOBs (such as CHEXIM and CDB). Between 2013 and 2017, AidData estimates that these entities provided \$342 billion in development financing and other financial flows to developing countries. By comparison, U.S. ODF from the closest U.S. analogue to an SOB—OPIC, now DFC—was only \$30.6 billion over this same period, supplemented by roughly \$29.8 billion in credits from the U.S. Export-Import Bank to developing countries.⁵⁹ Taken together, this means that, using funding from state-affiliated banks and enterprises, China outspends the United States by nearly a six-to-one margin.

Figure 1. China Outspends the U.S. Government in the Developing World, Primarily Through State-Owned Banks and Enterprises



SOURCES: Authors’ analysis of development assistance and financing data from AidData, 2021; ForeignAssistance.gov, 2022; DFC, 2021; Export-Import Bank of the United States, 2022.

NOTE: The state-owned banks and enterprises category includes (1) Chinese SOEs and SOBs and (2) development financing efforts by DFC and export-import promotion by the U.S. Export-Import Bank. Because of data constraints, U.S. Export-Import Bank data are not restricted to DAC-eligible countries. Dollar values are in nominal terms. Direct government sources include (1) project-level data directly financed by the Chinese government and (2) ODA from U.S. government agencies (such as USAID and MCC) but excluding financing efforts by DFC and Export-Import Bank.

⁵⁹ Because of data constraints, we cannot perfectly exclude from this estimate any U.S. export-import promotion efforts that were targeted toward developed countries as part of multi-country transactions. Out of all transactions not explicitly targeted toward developed countries, 47 percent of funding by volume and 85 percent of transactions were targeted toward “multiple countries” as coded in the U.S. Export-Import Bank’s transaction data. Future research is required to disaggregate U.S. Export-Import Bank transactions that are directly targeted toward developing countries as distinct from transactions that are targeted toward other global markets. As it stands, the overall volume of financing efforts by U.S. state-affiliated banks is likely an overstatement (though a conservative one to the extent that China still out-finances the United States).



However, the same does not hold true for development programs funded directly by each government. AidData estimates suggest that China provided only \$16 billion (over the five-year period analyzed) in overall programs directly from government sources that were not routed through an SOE or SOB.⁶⁰ These estimates pale in comparison to estimates of official U.S. development assistance and cooperation from the U.S. government over this same period, which totaled just over \$176 billion.

Combining both (1) direct government sources and (2) SOBs and SOEs in the aggregate, these data suggest that China outspent the United States in the developing world by at least \$120 billion (or 51 percent) between 2013 and 2017—a significant margin over five years, albeit not an overwhelming mismatch in each country’s reliance on development assistance and cooperation as a tool of economic statecraft, at least in percentage terms.⁶¹ The gap between U.S. and Chinese assistance has likely narrowed even further in recent years. Recent estimates suggest that Chinese overseas lending peaked in 2016 and has continued to decline since that time, although it is not clear by how much.⁶²

It is worth noting, however, that this overall picture of the volume of U.S. and Chinese economic engagement in the developing world is incomplete at best, given that it conflates the role played by such semi-governmental Chinese entities as SOEs and SOBs solely with that of the roles played by such U.S. government agencies as DFC and Export-Import Bank. Specifically, such a comparison neglects the independent role of the U.S. private sector—particularly as an analogue to Chinese private-sector-like entities with competing motives for profit, full employment, and continued subsidization by the state—in carrying out comparable investments and financing in the developing world.

60 AidData does not disaggregate the exact volume of assistance associated with each funding source on projects with multiple funders. However, as captured by AidData, only a small fraction of Chinese projects was funded by multiple sources, and of those projects, an even smaller fraction was funded by both direct government sources and state-owned banks and enterprises. Therefore, we assign these projects to the first coded funding source in AidData’s database. Alternative specifications would not substantively or even marginally change these trends.

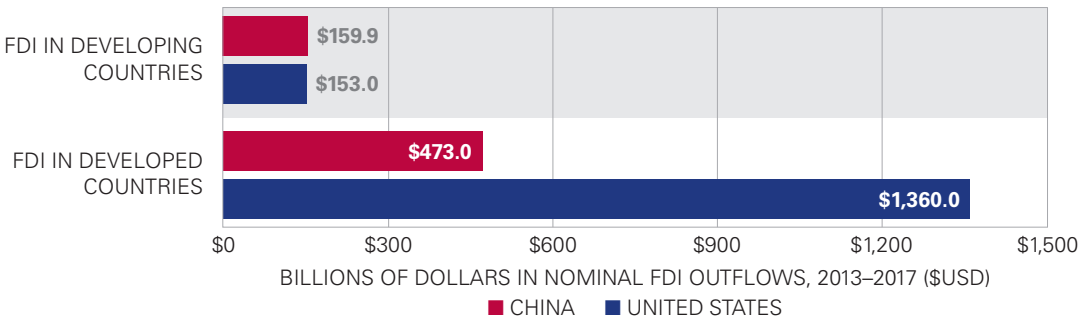
61 Public estimates by AidData suggest that this margin is even higher—as much as a two-to-one imbalance between Chinese spending and U.S. assistance. Our estimates differ for two reasons. First, we excluded data on Chinese financing to developed countries (as in, DAC-eligible countries) from our analysis. Second, we included additional data on U.S. assistance—specifically, data on U.S. official development financing from DFC/OPIC and data on U.S. export-import promotion from the U.S. Export-Import Bank—beyond the ODA captured in the ForeignAssistance.gov dashboard.

62 Jonathan Wheatley and James Kynge, “China Curtails Overseas Lending in Face of Geopolitical Backlash,” *Financial Times*, December 7, 2020; Matthew Mingey and Agatha Kratz, “China’s Belt and Road: Down but Not Out,” Rhodium Group, January 4, 2021.

In Figure 2, we provide an alternative way of conceptualizing U.S. and Chinese financing efforts in the developing world, this time focused on FDI outflows.⁶³ Over the period analyzed for this report (2013–2017), aggregate Chinese FDI outflows into developing countries are roughly comparable to U.S. FDI outflows into the same regions: Each is between \$150 billion and \$160 billion in total across five years. This suggests that overall levels of U.S. private-sector engagement with developing countries are comparable in scale to China’s efforts.

However, U.S. FDI outflows into developed countries far outweigh comparable Chinese investments (almost three times over). This discrepancy suggests that U.S. private-sector entities are less likely than their Chinese counterparts to invest in developing—as opposed to developed—countries as a share of overall investments. Phrased differently, roughly 25 percent of all Chinese FDI outflows over the period analyzed were directed to developing countries, while only 10 percent of overall U.S. FDI outflows were directed similarly. There could be several reasons for this, including the fact that China’s status as a middle-income country (in terms of gross domestic product [GDP] per capita) might leave its companies better suited to compete in developing markets or better able to employ excess labor from its own domestic industries in comparable sectors abroad. For instance, China’s comparative advantages in manufacturing make it an attractive partner for developing countries looking to establish or expand their own sectors. However, this might also reflect a greater willingness by the Chinese government to underwrite

Figure 2. The U.S. Private Sector Invests in the Developing World at Comparable Levels to China but Underinvests as a Percentage of Its Overall Efforts



SOURCES: Authors’ analysis of Chinese FDI data drawn from American Enterprise Institute and the Heritage Foundation, undated, and U.S. FDI data drawn from U.S. Bureau of Economic Analysis, undated. DAC-eligible countries are identified using OECD, undated-c.

NOTE: Developing countries are defined as DAC-eligible countries for the years 2014–2017. FDI is measured as outward flows of foreign direct investment in nominal terms.

63 Chinese FDI is drawn from American Enterprise Institute and Heritage Foundation, undated. This database draws its information from a variety of official and other public reporting and includes investment from all forms of Chinese companies, including SOEs, and counts any ownership stake above a certain percentage threshold as an FDI.



risk for Chinese private-sector and quasi-private-sector entities to operate in developing countries for reasons other than the profitability of such investments.

One final aspect worth noting is the role of U.S. nonprofits and NGOs. The OECD estimates that U.S. NGOs and nonprofit entities provided an additional nearly \$160 billion in grants to developing countries over the period we analyzed, which is nearly on par with the overall volume of U.S. ODA.⁶⁴ These grants represent roughly 81 percent of all NGO and nonprofit development grants made by entities within DAC-participating countries. Although comparable data on Chinese nonprofit and NGO grants to developing countries are not available via the OECD (because China is not a DAC-participating country), existing research into the Chinese nonprofit sector has often highlighted the primary domestic focus and limited size (albeit perhaps with a growing international profile) of China's NGOs as a proportion of the larger Chinese economy or when compared with international NGOs.⁶⁵

Either way, although Chinese *government-affiliated* sources outspend the U.S. government, it cannot be said that aggregate Chinese financial flows to developing countries overwhelm U.S. outflows from *all sources*—particularly the U.S. private and nonprofit sectors.

KEY TAKEAWAYS

- China outspends the United States in the developing world in terms of official, government-affiliated forms of development assistance and cooperation, primarily through its own SOEs and banks.
- These estimates, however, undercount the relative contributions of U.S. private-sector entities in the developing world, particularly in terms of FDI by U.S. private corporations and grants made by U.S. NGOs.
- U.S. private-sector FDI significantly outpaces comparable Chinese FDI globally but is more comparable in developing countries, possibly because of Beijing's greater willingness to underwrite risk for its private sector in the developing world.

64 OECD, undated-d. The OECD defines "grants by private voluntary agencies and [NGOs]" as "transfers made by private voluntary agencies and NGOs in cash, goods or services for which no payment is required. The private sector comprises private corporations, households and nonprofit institutions serving households."

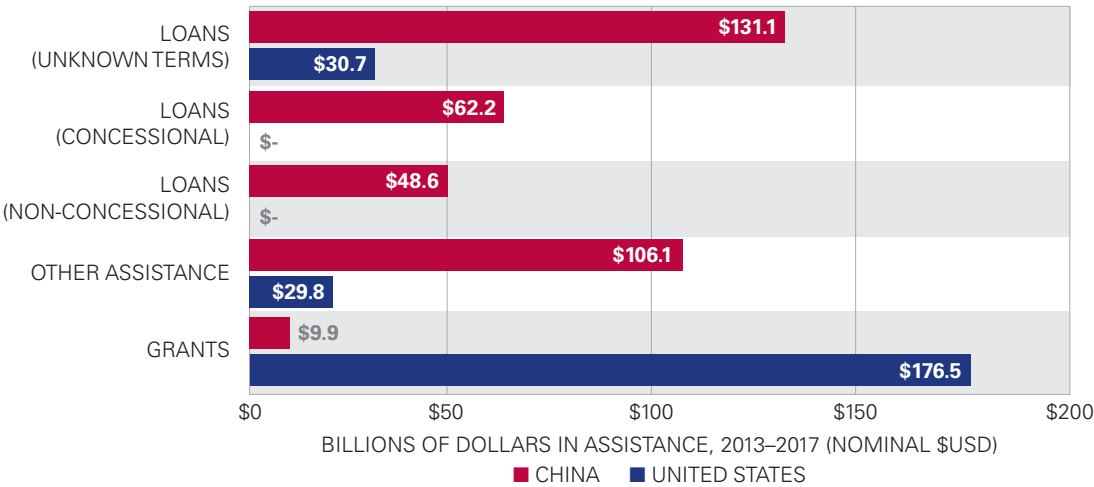
65 For discussion of the domestic focus of the Chinese nonprofit sector, see Gabriel Corsetti, "How Many NGOs Are There Really in China?" China Development Brief, August 2, 2019. For discussion of the size of the Chinese nonprofit sector relative to the broader Chinese economy, see Hui Fang, "Measuring China's Nonprofit Sector," The Asia Foundation, May 22, 2019. For discussion of the Chinese nonprofit sector relative to the size of international NGOs, see Ying Wang, "Going Global: The International Endeavours of Chinese NGOs," The People's Map of Global China, June 1, 2021. For discussion of the growing international profile of Chinese NGOs, see Reza Hasmath, "China's NGOs Go Global," *The Diplomat*, March 23, 2016.

FACTOR 2: FUNDING MECHANISMS FOR PROVIDING DEVELOPMENT ASSISTANCE AND COOPERATION

Next, we focus on the mechanisms used by China and the United States to fund development assistance and cooperation. Figure 3 compares the balance across grants, loans, and other forms of assistance. For the United States, this analysis uses ODA data, ODF data, and export-import promotion activities. For China, this analysis relies on AidData’s assessment of the grant and loan terms of individual projects captured in its database and China’s use of other state-directed forms of investment and export-import promotion.

Although the United States and China both employ a combination of loans and grants, a closer examination of the distribution across various funding mechanisms reveals strongly divergent patterns in the selected funding mechanisms in the aggregate.

Figure 3. China Relies Heavily on Loans; the United States Relies Heavily on Grants



SOURCES: Authors’ analysis of development assistance and financing data from AidData, 2021, ForeignAssistance.gov, 2022; DFC, 2022; Export-Import Bank, 2022.

NOTE: Loans are defined as concessional based on use of below-market interest rates. Other assistance for the United States includes export-import promotion activities related to developing countries by the U.S. Export-Import Bank. For China, other assistance includes export-import promotion activities and other transactions captured in AidData that are not expressly defined as grants or loans. Dollar values are in nominal terms.



The United States relies almost exclusively on grants: U.S. ODA obligates more than \$176 billion over the five years under consideration. Chinese grantmaking to the developing world is comparably small and provides less than \$10 billion in assistance over this same period. China's reliance on grants has perhaps increased in the years since 2017 (our data cutoff); some estimates suggest the volume of grants has doubled through 2021.⁶⁶ Even so, China's use of grants as a development assistance tool remains relatively modest when compared with the United States.

The United States uses other forms of economic assistance beyond grants and loans, as reflected in the data for *other assistance* in Figure 3, which includes activities by the U.S. Export-Import Bank.⁶⁷ But U.S. export promotion activities and Chinese activities are qualitatively different. Although the United States frequently uses working capital loan guarantees and export credit insurance offered to U.S. firms to facilitate such transactions by reducing the risk of investments in foreign markets, the U.S. government's involvement largely stops there. China plays a more direct role in project finance by facilitating guarantees and credits to developing countries that are tied to their purchase of goods and services from Chinese companies. Though the underlying loans (and sovereign default risk) remain in the name of the country receiving the project, buyers' and sellers' credits primarily accrue to Chinese SOEs tasked with building and operating infrastructure in developing countries.⁶⁸ In contrast, the risk of such investments made by U.S. firms falls primarily on the firms' own shoulders (minus the upfront support provided by the U.S. government).

Although such buyers' and sellers' credits are common in both the U.S. and Chinese cases, Chinese development cooperation efforts more frequently take the form of loans. Across the five-year period analyzed in this study, we found that China issued nearly \$242 billion (or two-thirds of its total assistance efforts) in loans to developing countries. CHEXIM and CDB historically have issued most of these loans to developing countries, although they each structure their financing in different terms.⁶⁹ Chinese financing packages often have concessional terms, such as below-market interest rates, grant elements, long grace periods before repayment, or maturities that are longer than

66 Beata Cichocka, Ian Mitchell, and Euan Ritchie, "Three Key Shifts on Development Cooperation in China's 2021 White Paper," *Center for Global Development* blog, February 9, 2021.

67 As previously highlighted, because of data constraints, we cannot perfectly exclude from these estimates any U.S. export-import promotion efforts that were targeted toward developed countries as part of multi-country transactions. As a result, the overall volume of financing efforts by U.S. state-affiliated banks is likely a partial overstatement.

68 Export-Import Bank of the United States, "Get Financing," webpage, undated. For information on how Chinese loans go directly to Chinese companies, see Ammar A. Malik, Bradley Parks, Brooke Russell, Joyce Jiahui Lin, Katherine Walsh, Kyra Solomon, Sheng Zhang, Thai-Binh Elston, and Seth Goodman, *Banking on the Belt and Road: Insights From a New Global Dataset of 13,427 Chinese Development Projects*, AidData at William & Mary, September 2021.

69 From 2000 to 2014, CHEXIM and CDB accounted for 70 percent of Chinese development financing (Scott Morris, Brad Parks, and Alysha Gardner, "Chinese and World Bank Lending Terms: A Systematic Comparison Across 157 Countries and 15 Years," Center for Global Development, April 2020, p. 18).

China's reliance on below-market concessional loans likely dampens the competitiveness of rival U.S. financing offers.

standard market loans. China's Ministry of Commerce reportedly provides no-interest renminbi loans, CHEXIM provides below-market interest renminbi and dollar loans, and CDB and state commercial banks provide dollar- or euro-denominated loans that are generally close to market rates.⁷⁰ Our project-level data on Chinese lending lack comprehensive information on the loan terms offered for the majority of China's development financing efforts. For those loans where we do have data on loan terms, we found that more than 56 percent of China's financing is offered at below-market rates. Outside estimates suggest that the average *concessional*—the below-market rate element of a loan or loan portfolio⁷¹—of China's loan portfolio falls slightly below the OECD DAC's lower bound (25 percent) for ODA and roughly 10 percentage points below the average concessional of World Bank lending (35 percent).⁷²

By comparison, the U.S. government obligated only \$31 billion (or less than 15 percent of China's comparable volume over the same period) in development finance loans to private firms over the 2013–2017 period via OPIC (now DFC). Although the terms of these loans are difficult to classify,⁷³ most estimates suggest that U.S. development financing efforts are offered at terms much closer to market rates (as in, they are non-concessional) and are made predominantly to private firms rather than developing countries themselves.⁷⁴ The 2019 establishment of the DFC and recent emphasis on the PGII have raised the prospect that the United States might look to expand its use of development financing tools in the future. However, institutional constraints, such as limited staff capacity and congressionally mandated caps on the maximum-allowable failure rates of DFC and U.S. Export-Import Bank loans, might make it difficult for the United States to increase the level of development finance offered through these specific vehicles rapidly or at scale.⁷⁵

All else being equal, China's heavier reliance on below-market concessional loans also likely dampens the competitiveness of rival U.S. financing offers at market rates. Nonetheless, loans from official U.S. government sources might carry some appeal to would-be recipient nations and private firms because of their

70 Morris, Parks, and Gardner, 2020, p. 6.

71 The below-market rate or *grant element* of a loan portfolio is the degree of concessional of a loan, defined as the "difference between the loan's nominal value (face value) and the sum of the discounted future debt-service payments to be made by the borrower (present value), expressed as a percentage of the loan's face value" (The World Bank, "Grant Element Calculations," webpage, undated).

72 The OECD DAC considers 25 percent to be the lower bound for ODA (Morris, Parks, and Gardner, 2020, p. 13).

73 The official terms of such loans often are opaque and related to things like rates defined by the Treasury Department and risk premia. For further discussion, see Shayerah I. Akhtar and Nick M. Brown, *U.S. International Development Finance Corporation: Overview and Issues*, Congressional Research Service, R47006, January 10, 2022.

74 DFC often competes with private entities on loan terms and, as a result, its rates are largely at market rates, making them non-concessional (U.S. government official, interview with the authors, May 2022).

75 U.S. government officials, interviews with the authors, May–June 2022.



transparency, particularly when compared with more-opaque loan offerings made by Chinese SOEs and SOBs. One recent study of major Chinese development loans found that more than 90 percent of loan contracts “have clauses that allow the creditor to terminate the contract and demand immediate repayment in case of significant law or policy changes in the debtor or creditor country.”⁷⁶ Similarly, the loans examined often contained “more elaborate repayment safeguards than their peers in the official credit market,” including “unique provisions, such as broad borrower confidentiality undertakings...and expansive cross-defaults designed to bolster China’s position in the borrowing country.”⁷⁷

Box 4 presents an example of an opaque Chinese loan gone awry in Montenegro. Although the generous terms of such loans might make them more appealing to developing countries at the outset, this case illustrates broader questions about whether China’s approach will succeed in increasing its market access and advancing its economic and political influence when the loans are actually executed. Such lending practices in pursuit of nonviable projects might ultimately contribute to a backlash that undermines the original intent of such a project from the lending nation’s perspective.

KEY TAKEAWAYS

- China’s development assistance and cooperation relies primarily on loans; the United States relies more heavily on grants that do not need to be repaid.
- Chinese lending outpaces U.S. financing efforts by a four-to-one margin, which will be difficult for the United States to match in scale.
- Chinese lending usually flows from SOBs to sovereign borrowers and often has concessional elements that make them appealing to developing countries, whereas the United States primarily offers non-concessional loans to U.S. firms at market rates in what amounts to a low-cost form of a sovereign guarantee.
- The net effect of these practices is the incentivizing of U.S. investments in profitable activities driven by market conditions; reported examples of underperforming projects financed by China are consistent with the perception that China is using these vehicles primarily to advance geopolitical interests without regard to their long-term viability.

⁷⁶ Anna Gelpern, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments*, AidData at William & Mary, Center for Global Development, Kiel Institute for the World Economy, and Peterson Institute for International Economics, March 2021, p. 7.

⁷⁷ Gelpern et al., 2021, p. 8.

Box 4

The Risks of Easy Lending: Montenegro's Road to Nowhere

Aerial View of Montenegro's
Road to Nowhere



In 2014, Montenegro borrowed \$1 billion from the Export-Import Bank of China to finance the first portion of a 163-km highway connecting the Adriatic port of Bar with the Serbian capital of Belgrade. This loan was provided at concessional rates and came after various European banks had declined to lend the funds to Montenegro. The state-owned China Road and Bridge Corporation broke ground in 2015 and planned to complete the highway by November 2019. By 2022, three years after the initial deadline (and eight years after the contract was first signed), only an isolated 41-km stretch of the planned road had been built.

As of this writing, Montenegro lacks the funds to build the remaining portions of the road. The initial 2014 loan agreement amounted to 20–25 percent of the annual GDP of Montenegro, and the overall debt load had climbed to 80.3 percent of GDP in March 2022. The European Union has declined to bail out Montenegro's government, although U.S., French, and German banks have provided short-term hedging loans. Under the original loan contract, the Export-Import Bank of China retains the right to seize land inside Montenegro if the country is unable to repay the loan on time. Although the Montenegrin government has classified the terms of the deal, investigators have discovered possible instances of corruption and self-dealing linked to those involved in finalizing the agreement. Investigators have also found that the Montenegrin government officials who oversaw the initial deal suppressed two feasibility studies that concluded the project was economically unworkable. The construction has also damaged the Tara River Basin, a United Nations Educational, Scientific, and Cultural Organization (UNESCO) World Heritage site.

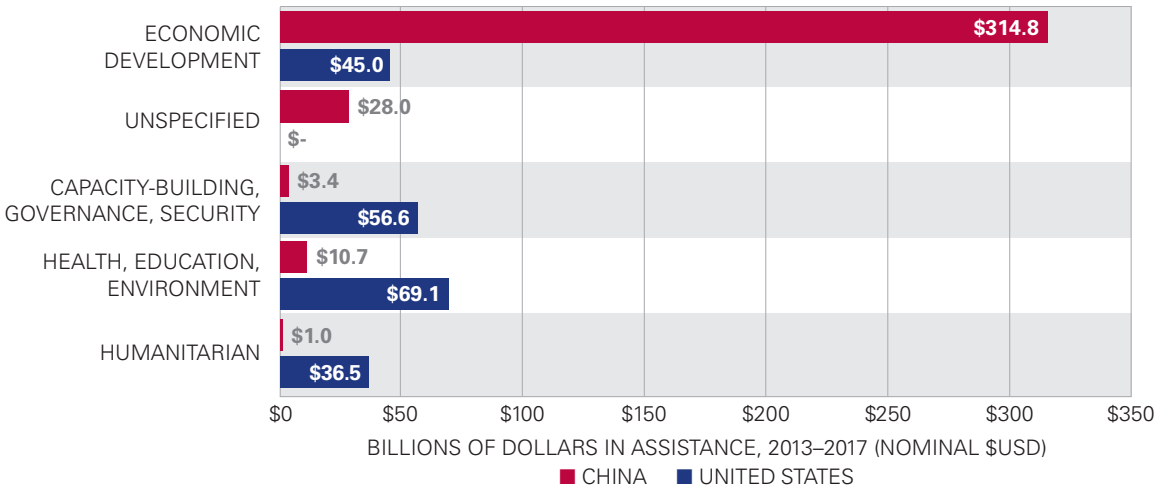
SOURCES: Predrag Tomovic and Reid Standish, "Montenegro's \$1 Billion Highway Faces Uncertain Future After Years of Delays," Radio Free Europe/Radio Liberty, May 21, 2022; Rob Schmitz, "How a Chinese-Built Highway Drove Montenegro Deep into Debt," NPR, June 29, 2021.

FACTOR 3: SECTORAL BREAKDOWN

Next, we focus on the sectoral breakdown of U.S. and Chinese spending (summarized in Figure 4). For this portion of our net assessment, we use data on U.S. official development assistance and development financing only because we lack sufficient sectoral-level project data for U.S. export-import promotion to reliably compare with AidData’s own sectoral breakdowns of comparable Chinese efforts.⁷⁸

This analysis reveals a clear difference in approach between prioritizing direct economic development (China’s approach) and prioritizing indirect forms of economic and social development (the U.S. approach). In keeping with Beijing’s interest in finding external markets to absorb the outputs of Chinese overcapacity in construction, infrastructure, transportation, and other state-supported sectors, we find that large economic development projects—in particular, projects related to energy, natural

Figure 4. China Focuses Directly on Economic Development, the United States Focuses More on Human and Social Development



SOURCES: Authors’ analysis of development assistance and financing data from AidData, 2021; ForeignAssistance.gov, 2022; and DFC, 2021.

NOTE: Economic development includes mining and natural resources, hard infrastructure, macroeconomic and financial support, and agricultural assistance. Unspecified support for China includes “other multisector” and “unallocated/unspecified” lending captured in AidData, for which we cannot crosswalk Chinese lending with comparable U.S. sectors because of data constraints. Capacity building, governance, and security support encompasses program support and administrative capacity-building efforts; democracy, human rights, and governance support; and nonmilitary peace and security assistance (excluded by AidData’s methodology). Other categories are self-explanatory in the data. Dollar values are in nominal terms.

78 To be comprehensive, Figure 4 includes data on China’s export-import promotion activities even though we lack the ability to identify comparable sectors in U.S. Export-Import Bank data, which are excluded from the figure. For robustness, we conducted a version of this analysis that excluded China’s export-import promotion activities. The primary impact of this change was a reduction in the volume of overall Chinese financing for economic development purposes—which is the main sector in which China uses such credits—by nearly \$100 billion. This shift does not affect the broader trends in the distribution of sectoral spending identified in Figure 4. We also considered incorporating U.S. NGO and nonprofit giving (\$160 billion over five years), but we lack sectoral-level data for the United States on such grants. Various analysts suggested to the project team that U.S. NGO funding largely mirrors the sectoral breakdown of official government development assistance (Aid researchers, interviews with the authors, March 2022). We also lack comparable Chinese data for inclusion.

resource extraction, and transportation sectors—account for the majority of Chinese development outflows.⁷⁹ Between 2013 and 2017, China spent roughly \$314 billion on such economic development projects, whereas the United States spent less than \$45 billion for the same purposes over this period, a seven-to-one margin. Even if we were to assume that the vast majority of U.S. Export-Import Bank credits were provided for economic development purposes (roughly \$30 billion over the period analyzed), Chinese spending on direct economic development projects still vastly outweighs comparable spending by the United States.

Instead, U.S. bilateral engagements are focused on priorities more closely related to indirect economic development by advancing broader human and social objectives, including nearly \$70 billion on health, education, and environmental programming; \$56 billion on administrative capacity-building, governance, democracy, human rights, and nonmilitary security sector assistance; and more than \$36 billion on humanitarian assistance. Chinese policy traditionally has placed less emphasis on capacity-building projects abroad, although Chinese assistance does appear to put some emphasis on public health and social projects (nearly \$11 billion over five years).

Notably, our data end in 2017, three years prior to the outbreak of the COVID-19 pandemic. Although the global emergency prompted Beijing to launch a series of new public health cooperation efforts with developing countries, it is still unclear whether these initiatives portend a lasting increase in Chinese health-related development spending, including what some observers have dubbed Chinese “vaccine diplomacy.”⁸⁰ Similarly, China has increased its spending on global humanitarian assistance since 2017, although overall levels are still well below comparable levels of U.S. humanitarian spending.⁸¹

This sectoral breakdown speaks clearly to the underlying tension in broader U.S. development policy over the past several decades between promoting U.S. values and norms abroad and promoting broader U.S. economic and foreign policy interests. U.S. development efforts, at least in the aggregate, largely target social and human development objectives across broad swaths of local populations in developing countries. While these efforts might aim to fill discrete gaps in foreign governments’ capacity

79 Samantha Custer, Justin Schon, Ana Horigoshi, Divya Mathew, Bryan Burgess, Vera Choo, Amber Hutchinson, Austin Baehr, and Kelsey Marshall, *Corridors of Power: How Beijing Uses Economic, Social, and Network Ties to Exert Influence Along the Silk Road*, AidData at William & Mary, December 2021, p. 4.

80 Ralph Jennings, “China’s COVID-19 Vaccine Diplomacy Reaches 100-Plus Countries,” *Voice of America*, September 18, 2021; ChinaPower, “Is China’s Covid-19 Diplomacy Succeeding?” Center for Strategic and International Studies, September 7, 2021; María Eugenia Brizuela de Ávila, Riyad Insanally, Claudia Trevisan, and Bosco Marti, *US-China Vaccine Diplomacy: Lessons from Latin America and the Caribbean*, Atlantic Council, February 2022. Medical and health assistance programs, including hospital construction, training programs, and equipment donations, have been a long-standing element of China’s development policy. By 2019, for instance, Chinese medical teams were operating in 72 countries and regions around the world (Yuan, Su, and Ouyang, 2022, pp. 17–18).

81 Jacob Kurtzer and Grace Gonzales, “China’s Humanitarian Aid: Cooperation Amidst Competition,” Center for Strategic and International Studies, November 17, 2020.



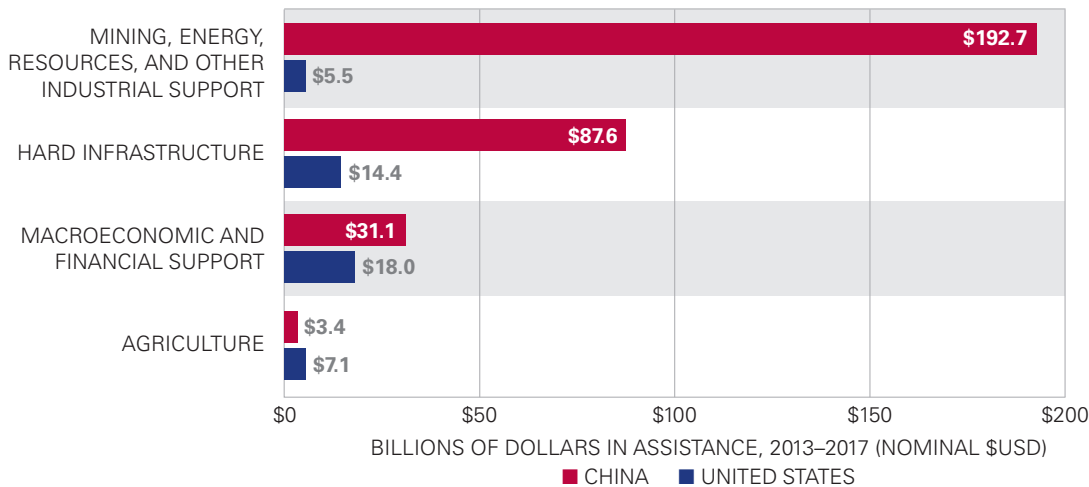
or capabilities to provide similar services, the benefits to the United States are more diffuse and likely to accrue over the long term. Indeed, to preserve local support for its programs, the United States traditionally has emphasized the altruistic nature of its assistance and has taken steps to downplay the political implications.

Conversely, China’s more direct focus on promoting economic development (1) provides developing countries with a means to finance capital-intensive economic projects that they are less likely to be able to finance through their own capital or through global capital markets and (2) increases opportunities for Chinese FDI, labor contracts for Chinese workers, and export markets for Chinese goods.

In Figure 5, we break down development programming into four subsectors: mining, energy, and natural resources; hard infrastructure (such as transportation or communications infrastructure); macroeconomic and financial support; and agricultural support.

Although China’s efforts to build major transportation and commercial infrastructure under the BRI often receive the most attention, Beijing places a much larger emphasis on energy, mining, and natural resource extraction projects in the developing world, to the tune of nearly \$200 billion between 2013 and 2017.

Figure 5. Chinese Development Spending Emphasizes More Than Infrastructure



SOURCES: Authors’ analysis of development assistance and financing data from AidData, 2021; ForeignAssistance.gov, 2022; and DFC, 2021.

NOTE: Mining, energy, resources, and other industrial support includes U.S. ODA and ODF data on mining and natural resources in addition to broader policy support spending, which is inclusive of more-specific mining efforts and general economic competitiveness promotion. For China, this category includes projects coded by AidData as either energy or industry, mining, and construction. Macroeconomic and financial support includes U.S. ODA and ODF categorized as macroeconomic, trade and investment, financial sector support, or real estate support. For China, it includes banking and financial services, action relating to debt, business and other services, trade policies and regulations, other commodity assistance, and general budget support as captured in AidData. Hard infrastructure includes water supply and sanitation, transport and storage, and communications infrastructure. Entries for agricultural support are self-evident in the data. Dollar values are in nominal terms.

These include projects related to oil extraction and transport, mineral extraction and mining, construction of petroleum refineries, and construction of various power-generation facilities (such as hydroelectric dams, thermal plants, and coal-fired power plants), among other similar efforts. China is a leading global investor in clean energy transition technologies and renewable energy capture, which makes investments in such projects abroad suitable opportunities for the employment of excess Chinese domestic technological capacity to support energy projects in new markets.⁸² These investments also closely align with China's own domestic energy needs and priorities. In 2021, China's oil imports amounted to more than 82 percent of its domestic consumption.⁸³ By some estimates, this proportion is likely to stay high through at least 2040.⁸⁴ These investments therefore represent an opportunity for China to build access to critical natural resource markets (and potentially secure agreements for Chinese SOEs to operate extraction facilities upon their construction) while also finding an outlet for excess domestic capital and labor through both high-tech and labor-intensive construction projects.

Surprisingly, although China's reliance on transportation and communications infrastructure has garnered significant attention in the United States and Europe, China provides a comparably smaller amount of funding—roughly \$88 billion over the five-year period analyzed in this study—for these types of hard infrastructure projects in developing countries compared with its energy and resource investments. These hard infrastructure investments include transportation investments (e.g., roads, bridges, railways), communications infrastructure (including 5G and other telecommunications projects), and non-energy water and sanitation projects. Even though these investments represent a smaller portion of China's overall infrastructure investments, China still massively outspends (by a six-to-one basis according to our estimates) comparable U.S. investments (including through multilateral institutions) in non-energy hard infrastructure projects: From 2013 through 2017, U.S. spending on such projects was only \$14.4 billion.⁸⁵

Nevertheless, since 2017, the United States has begun to reexamine the utility of infrastructure projects as a component of its own development assistance, partly in response to perceptions that China has successfully leveraged such projects

82 ChinaPower, "How is China's Energy Footprint Changing?" Center for Strategic and International Studies, undated.

83 BP p.l.c., *BP Statistical Review of World Energy*, 71st ed., 2022.

84 ChinaPower, undated.

85 These differences are slightly less pronounced when Chinese export-import promotion activities are dropped from this analysis (since we lack similar data on sectoral export-import promotion for the United States). Specifically, when excluding such credits, China provided only \$45 billion in infrastructure financing over the 2013–2017 period and only \$137 billion in energy and natural resource project financing. Nevertheless, these volumes still significantly outpace comparable investments by the United States.



to garner influence at the expense of the United States in key regions. Historically, the United States began to shy away from major infrastructure financing efforts in the 1970s out of concern that such projects would create unsustainable debt burdens for developing countries, prompting the shift toward the United States' current grants-based approach.⁸⁶

However, throughout the 2010s—and at an accelerating pace toward the latter part of that decade and into the 2020s—the United States launched several new infrastructure financing efforts intended to revitalize its role in supporting infrastructure projects in developing countries across the energy, transportation, and communications sectors. These efforts include Power Africa, which aims to expand access to electricity in the region; the multilateral Blue Dot Network, which promotes global sustainable infrastructure development; and the Enhancing Development and Growth Through Energy initiative, which includes programs to help states develop sound and socially equitable energy infrastructure.⁸⁷ This renewed interest in infrastructure was also evident in the launch of PGII in 2022, which included promises of public-private partnerships to build energy, medical, and telecommunications programs. While these efforts represent a revived U.S. interest in infrastructure as part of development, they also represent a revised approach compared with the United States' efforts in the 1970s and perhaps compared with China's broad-based infrastructure financing through the BRI, which is focused on developing long-term financing mechanisms that limit the adverse consequences of potential debt burdens on individual recipient countries, in part by embracing economically viable projects that support realistic development needs in a given country.

It is possible that China might simply be in the early stages of a similar maturation of its own approach to infrastructure-based development financing, akin to the U.S. experience in the 1970s. Although infrastructure projects (both energy and other forms of hard infrastructure) were an essential early component of China's broader BRI portfolio, some evidence suggests that Beijing has begun to reduce its reliance on infrastructure spending, in part over blowback against perceptions of Chinese debt-trap diplomacy and in part out of concerns over the likelihood of repayment by debt-saddled developing countries.⁸⁸ Even before the COVID-19 pandemic, the number of Chinese overseas construction contracts—an indicator some analysts have used as a proxy for infrastructure activity and related lending—had entered a

China might
be in the early
stages of a
maturation of its
own approach
to infrastructure
financing.

⁸⁶ The notable exceptions to this trend were large infrastructure spending and lending that occurred as part of postwar reconstruction efforts in Iraq and Afghanistan. For further discussion, see Lawson and Morgenstern, 2019.

⁸⁷ Conor M. Savoy and Shannon McKeown, "Future Considerations for the Partnership on Global Infrastructure and Investment," Center for Strategic and International Studies, June 29, 2022.

⁸⁸ Cichocka, Mitchell, and Ritchie, 2021; Yuan, Su, and Ouyang, 2022, p. 19; Shin Watanabe and Ryosuke Hanada, "China Slows Foreign Lending as Belt and Road Problem Loans Triple," *Nikkei Asia*, September 20, 2022.

multiyear decline.⁸⁹ Concurrently, there are signs that China faces a shortage of specialized personnel who possess the technical expertise to assess the risks associated with Chinese loans in developing countries and likely faces challenges in improving its own ability to ensure projects meet recipient countries' demand for better quality and more timely project completion.⁹⁰ Across Africa, where 40 countries have formally joined the BRI, Chinese bank financing for infrastructure projects fell by approximately 70 percent between 2017 and 2020.⁹¹ Acknowledging Beijing's decreased reliance on infrastructure projects, the Chinese State Council's 2021 Development White Paper directed an increased focus on technical cooperation, low-level capacity-building efforts, and governance.⁹²

KEY TAKEAWAYS

- U.S. spending tends to flow toward human capital–related sectors that aim to build functioning, capable societies over the long term, often with the implicit objective that such societies will be more likely to naturally align with the United States.
- Chinese sectoral spending is concentrated on economic infrastructure related to natural resource extraction. This focus enables linkages between Chinese consumers and foreign resource markets and access to foreign outlets for excess domestic Chinese capital and labor during both the construction and eventual operation of such facilities.
- Chinese lending for infrastructure (including both energy and other hard infrastructure) might be declining, mirroring a similar maturation in the U.S. approach away from major infrastructure financing in the 1970s.

89 Agatha Kratz, Daniel H. Rosen, and Matthew Mingey, *Booster or Brake? COVID and the Belt and Road Initiative*, Rhodium Group, April 15, 2020.

90 Banik, 2019.

91 Duncan Miriri, "African Nations Mend and Make Do as China Tightens Belt and Road," Reuters, November 22, 2021.

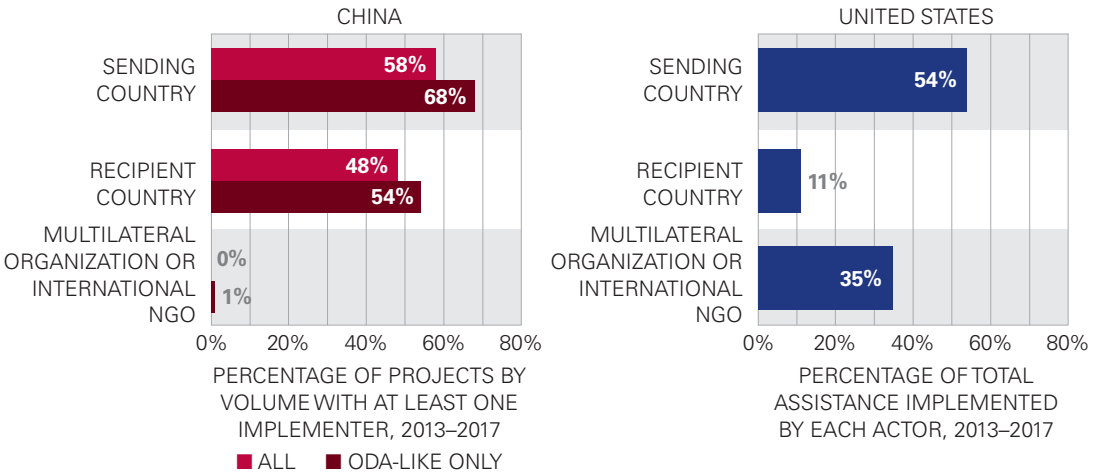
92 Anthea Mulakala and Ji Hongbo, "Insights on China's 2021 White Paper on International Development Cooperation," The Asia Foundation, February 17, 2021.

FACTOR 4: IMPLEMENTERS OF DEVELOPMENT PROJECTS AND PROGRAMS

Next, we look at which types of actors actually implement development projects funded by China and the United States (summarized in Figure 6). For this portion of our net assessment for the United States, we focus solely on ODA flows because we lack fidelity on precise implementers in data on development financing and export-import promotion activities. We compare these flows with all forms of financing and assistance captured for China in the AidData dataset (light red) and, for robustness, just the subset of China’s ODA-like flows (dark red).

Of note, AidData captures all relevant implementers associated with a given project without identifying the specific proportion of funding implemented by each actor. A different approach is taken with U.S. ODA data, which captures the volume of assistance implemented by individual actors.⁹³ As a result, Figure 6 presents slightly different estimates of the volume of assistance implemented by various types of actors for both Chinese and U.S. assistance. Both panels focus on the percentage of overall funding implemented by any institution or actor associated with the sending country (i.e., China or the United States), the recipient country, or a multilateral or international organization. For the United States, estimates show the exact proportions of total assistance funding implemented by each type of actor of their own accord, but for China, data limitations

Figure 6. Both China and the United States Directly Implement the Majority of Their Assistance Programs but Rely Differently on Recipient Nations and International Organizations



SOURCES: Authors’ analysis of development assistance and financing data from AidData, 2021; ForeignAssistance.gov, 2022.
NOTE: For China, light red lines present total spending figures; dark red lines show only the portion of overall Chinese assistance derived from ODA-like flows (as identified by AidData), excluding other financing, official flows, and export-import credits. In both panels, *sending country* refers to China or the United States, respectively. *Recipient country* refers to the receiving nation. Other/unknown implementers captured in AidData are excluded from this figure for presentation purposes, as they represent only 0.03 percent of all projects by volume. For China, implementers can be associated with multiple projects; hence, totals do not sum to 100 percent. For the United States, implementers are exclusive.

93 Notably, ForeignAssistance.gov’s data lack a project-level identifier that would allow us to aggregate project-level data on implementation for a directly analogous comparison with AidData’s estimates.

mean we can only present the percentage of total assistance funding in which each type of actor was involved in any capacity, even if the involvement was minimal in terms of the overall assistance implemented. Given the existing evidence already cited of China's reliance on its own SOEs and laborers to implement major projects, these estimates likely undercount the overall proportion of investments implemented by China directly. To partially compensate for this fact, we calculate these proportions based on the overall nominal cost of each project (rather than simply by the overall number of projects). Despite this adjustment, this remains a necessarily imprecise comparison limited by available data. Acknowledging these limitations, we focus our analysis primarily on the biggest asymmetries revealed in these data.

First and foremost, these estimates highlight that both the United States and China are each heavily involved in implementing their own assistance and development cooperation efforts, with China perhaps more heavily reliant. Chinese government, SOE, and private-sector entities are involved in implementing well over one-half (58 percent) of all Chinese spending by volume. This proportion rises to more than two-thirds when we look at just China's ODA-like assistance (the darker red bars in Figure 6). The U.S. government is somewhat less reliant on American entities to implement its development programming: 54 percent of all U.S. ODA funding is implemented by a U.S. government or private-sector entity. More-refined data on the proportion of Chinese funding implemented by Chinese actors within a given project could help to refine these estimates and highlight the true extent of this asymmetry.

A second important difference is apparent in each country's reliance on external actors to implement their respective assistance programs. Over the period analyzed, the United States relied on multilateral and international organizations to implement more than one-third of all its ODA. By contrast, such organizations were involved in implementing less than 1 percent of all China's assistance over the same years—a stark divide.

Although the vast majority of Chinese aid over this period was implemented bilaterally, China has generally sought to increase its influence in multilateral development organizations in more-recent years. Such engagement provides Beijing with an avenue to exercise influence in international and regional affairs, to shape the international development agenda, and to promote its own governance and development models as new global norms.⁹⁴ However, existing estimates suggest that China's increasing engagement with such multilateral institutions has not necessarily been matched with increased funding commensurate to China's rising economic strength. By 2019, for example, China became just the fifth largest donor to United Nations development programs behind other, smaller economies.⁹⁵ Although GDP alone is hardly the measure of a country's responsibility to

94 Yuan, Su, and Ouyang, 2022, pp. 20–21; Ferchen, 2020; Kristen A. Cordell, "Chinese Development Assistance: A New Approach or More of the Same?" Carnegie Endowment for International Peace, March 23, 2021.

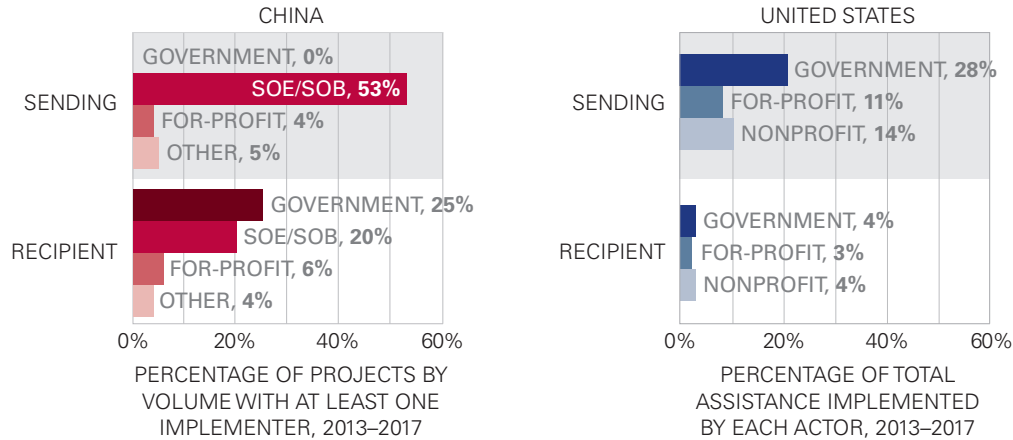
95 Yuan, Su, and Ouyang, 2022, p. 20.

support multilateral institutions, it does signal the extent to which China has underprioritized lending through such institutions compared with the United States.

A third major difference in each country’s approach to implementing development projects lies in the extent to which each country relies on local actors in recipient countries to support implementation. The United States uses local implementers in recipient countries to implement only 11 percent of total assistance by volume. By contrast, nearly half of all Chinese projects by volume (even higher when looking at just ODA-like flows) involve at least one local implementer in the recipient country. Although these estimates are measuring slightly different things because of our data limitations, they do suggest that the United States is less reliant on local actors to execute its assistance programming.

To better understand these trends, Figure 7 presents a more granular breakdown of U.S. and Chinese spending by sending and recipient country implementing partners only.⁹⁶ Estimates are subject to the same data limitations described earlier in this section, in that we lack precise data on the proportion of Chinese spending implemented by each actor within a project. As a result, estimates for implementers of Chinese development assistance and cooperation efforts represent the percentage of total assistance funding in which each type of actor was involved

Figure 7. China Implements Its Projects Through SOEs and Recipient Governments; the United States Leans More Heavily on Private-Sector Actors



SOURCES: Authors’ analysis of development assistance and financing data from AidData, 2021; ForeignAssistance.gov, 2022. NOTE: Estimates exclude multilateral organization or international NGO implementers for China (< 1 percent) and the United States (35 percent). For China, total assistance figures are presented inclusive of ODA-like flows, other financing, official flows, and export-import credits. For the United States, only ODA flows are presented because of data constraints. Other implementers for China include instances in which implementers are not specified or a “Joint Venture/Special Purpose Vehicle” is used. All implementers are known and categorized in U.S. ODA data, so we do not report an Other category. In both panels, *sending country* refers to China or the United States, respectively. *Recipient country* refers to the receiving nation. For China, implementers can be associated with multiple projects; hence, totals do not sum to 100 percent. For the United States, implementers are exclusive.

96 For this figure, we do not break out Chinese ODA-like flows from all Chinese assistance. However, a comparable analysis (not presented) reveals an even greater reliance on recipient government implementers for China among ODA-like flows, which is the only major difference from estimates presented in Figure 7.

in any capacity on a project, weighted by the overall cost of the project. Estimates for U.S. assistance represent the exact proportion of U.S. aid implemented by each partner.

Despite the data limitations, this figure highlights, perhaps unsurprisingly, that China relies heavily on its own SOEs and SOBs for implementation: More than half of all projects by volume involve these actors in implementation. Similarly, China leans on recipient government and SOE-like entities for implementation. Taken together, such an approach further helps to diversify responsibility for successful execution of Chinese projects onto local actors while also leaving room for China to negotiate favorable terms with recipient governments to employ Chinese laborers and suppliers through its own SOEs. In theory, this arrangement can allow local input on implementation, providing an accountability measure that improves recipient satisfaction. In practice, however, recipient countries have complained that Chinese SOEs routinely exclude local actors from critical decisions and conceal defects in construction plans and execution.⁹⁷ Moreover, Chinese companies' lack of transparency limits local scrutiny and input.

The United States, conversely, relies heavily on U.S. government implementers and its own robust domestic for-profit and nonprofit development sector to support project implementation abroad. When it does rely on local actors in recipient countries, implementation partners are heavily concentrated in local private-sector entities rather than the governments of developing countries themselves, likely out of a desire to ensure strict accountability of aid and limit opportunities for public corruption.

Combined, these various patterns suggest a preference on China's part to work through both *direct* and *official* channels in recipient countries to implement its development programming, ensuring the ability to directly negotiate terms with government officials that promote China's own domestic enterprises (and likely garnering influence with those same local officials as a result). When China works through multilateral organizations, it is primarily to shape broader procedures for development aid (something that most nations pursue) more than to finance the efforts of these organizations to execute programming against shared multilateral objectives (something that the United States embraces more readily).

The United States, instead, takes a more diffuse approach that spreads its assistance across many partners, relying heavily on trusted agents (both U.S. private-sector implementers and multilateral organizations and international nonprofits) to ensure its assistance is implemented in an accountable manner. When it uses local implementers, the United States prefers to work

97 Ryan Dube and Gabriele Steinhauser, "China's Global Mega-Projects Are Falling Apart," Wall Street Journal, January 20, 2023.



through local private-sector entities that are likely to build broader societal capacity than through recipient governments.

The difference between these approaches is potentially both a strength and weakness for the United States in terms of its ability to leverage development spending as a tool of economic statecraft. In many cases, the United States' greater reliance on multilateral organizations and private-sector entities allows the United States to build local governance capacity and development outcomes with minimal direct involvement, focusing government-to-government efforts on advancing shared political interests with bilateral partners. However, recipient countries have also raised concerns that private entities, including NGOs, do not always deliver what locals need or want. Although U.S. NGOs tend to employ local labor, research has illustrated a mixed record in NGOs balancing between their mission of delivering local goods and countervailing business interests.⁹⁸ In other cases, China's approach—promoting its own industries and working directly with local government actors—can leave the United States vulnerable to targeted efforts to disrupt U.S. assistance through elite capture or at least efforts to coerce and incentivize local governments to pursue Chinese investments instead (see Box 5 for one such example from Nepal).

KEY TAKEAWAYS

- China is somewhat more reliant than the United States on its own national actors to implement development projects abroad, although the United States still works through American implementers for roughly half of all spending.
- China also leans heavily on recipient government actors and local SOEs, while the United States largely avoids implementing its projects through recipient country actors, particularly recipient governments.
- Conversely, the United States uses multilateral and international organizations to implement a significant proportion of its projects, whereas China almost never works through such organizations to implement its assistance.

98 For instance, prior RAND research on assistance to Middle Eastern refugees found that funding incentives encouraged many NGOs to provide haphazard or unnecessary labor training (Krishna B. Kumar, Shelly Culbertson, Louay Constant, Shanthi Nataraj, Fatih Unlu, Kathryn E. Bouskill, Joy S. Moini, Katherine Costello, Gursel Rafig oglu Aliyev, and Fadia Afashe, *Opportunities for All: Mutually Beneficial Opportunities for Syrians and Host Countries in Middle Eastern Labor Markets*, RAND Corporation, RR-2653-QFFD, 2018). For a broader discussion of accountability and local development NGOs, see Carew Boulding, "Dilemmas of Information and Accountability: Foreign Aid Donors and Local Development NGOs," in Peter A. Gourevitch, David A. Lake, and Janice Gross Stein, eds., *The Credibility of Transnational NGOs: When Virtue Is Not Enough*, Cambridge University Press, 2012.

Box 5

Shaping Elite Perceptions: A Warning from Nepal



General strike day
in Kathmandu, 2022.

In 2017, the United States and Nepal signed a \$500 million Millennium Challenge Corporation (MCC) compact to improve Nepal's electrical grid, transmission lines, and road systems over five years. The compact is structured as a grant, not a loan, and is the largest in Nepal's history. Approval from the Nepali Parliament was needed to ratify the compact.

Chinese opposition to the project caught the United States by surprise, prolonging debate on passage of the compact and threatening prospects for its approval. When the Nepali Parliament first took up the compact for consideration in July 2019, Beijing began a coordinated information campaign that decried the U.S. grant as an attempt to militarize a neighboring country and, according to statements by senior U.S. government officials, orchestrated a disinformation campaign to mobilize parliamentary opposition. Fake stories that the pact would violate Nepali sovereignty or that the U.S. military would enter Nepal on ratification went viral on social media, fueled in part by statements by U.S. diplomats that implied the MCC compact was tied to the U.S. Indo-Pacific Strategy. Despite U.S. reassurances, a coalition of leftist parties latched on to these missteps to claim that Nepal would become entrapped in militarized competition between China and the United States if the compact were approved. Thousands of Nepali citizens soon began to participate in sometimes violent protests, with opponents of the MCC grant orchestrating a general strike in February 2022 that shut down schools and disrupted traffic nationwide.

Ultimately, Nepal's Parliament ratified the MCC compact by narrow margins in February 2022. Legislators attached an "interpretative declaration" stipulating that Nepal will not enter a security alliance with the United States as a component of the compact. The original offhand remarks by U.S. officials linking this compact to broader U.S. security objectives in the region provided an opening for greater Chinese pushback, but it would be a mistake to assume that these remarks alone were the reason why China chose to push back so forcefully.

In retrospect, the intensity of China's response to the MCC compact suggests that such obstruction was motivated primarily by preexisting and deep-seated concerns about U.S. influence along China's periphery. The incident underscores the importance of greater coordination among U.S. government officials to consistently communicate how U.S. development programs and projects advance human welfare, even in circumstances where the United States might also gain national security benefits. Such coordination will become particularly important as China's global ambitions expand further afield into new regions.

SOURCES: Binod Ghimire, "Why the MCC Compact Courted Controversy in Nepal," *Kathmandu Post*, January 9, 2020; Kripendra Amatya, "The MCC and Nepal's Strategic Ties with the US," *The Diplomat*, February 19, 2020; "China Opposes 'Coercive Diplomacy' of US in Pushing MCC Compact in Nepal," *Global Times*, February 18, 2022; Penny MacRae, "US Bid to Give US\$500 Million to Nepal Sparks Protests, War of Words Between Washington, Beijing," *South China Morning Post*, February 22, 2022; Lekhanath Pandey, "US Grant to Nepal Puts Spotlight on Geopolitical Rivalry with China," *Deutsche Welle*, February 23, 2022; Gopal Sharma, "Why Is a US Infrastructure Grant Behind Protests in Nepal?" *Reuters*, February 24, 2022; Dean Thompson, "Opening Statement for Dean Thompson: Nominee to be U.S. Ambassador to Nepal," *Senate Foreign Relations Committee*, July 13, 2022.

FACTOR 5: CONDITIONALITY OF AID

Finally, we compare the extent to which China and the United States place conditions on their aid. Because we lack any project-level data on the conditionality of either U.S. or Chinese assistance, we rely on prior research and analysis to facilitate this aspect of our net assessment. We focus on two potential conditional aspects: (1) tied aid and (2) enforcement of human rights, financial, or other policy preconditions to the receipt of such aid.

The tied status of aid is a topic of significant discussion in the development community, particularly the extent to which the United States often requires the use of U.S. domestic producers or U.S. shipping and transportation service providers. Advocates for limiting tied aid argue that it reduces the efficiency and, therefore, overall efficacy, of such assistance.⁹⁹ According to OECD estimates, between one-third and one-half of U.S. ODA was tied in each year between 2013 and 2017.¹⁰⁰ For example, much of the food aid provided by the United States to countries suffering from natural disaster or famine is legally required to be shipped from the United States on U.S.-flagged shipping vessels. This so-called cargo preference often increases the overall cost of such assistance compared with local procurement or even cheaper foreign-flagged shipping to move goods out of the United States. Moreover, this approach can crowd out the downstream benefits that similar funding applied toward local procurement of food could have in rebuilding supply chains and employment prospects for local laborers affected by a disaster. This is only one example—but a clear one—of the costs of tied aid.

Although the U.S. emphasis on tied aid has attracted substantial domestic and international criticism, China arguably attaches similar terms to a large proportion of its development financing activities. CDB and CHEXIM both require at least 50 percent of all foreign-financed goods to be Chinese in origin.¹⁰¹ Beijing does not publish comprehensive data on the terms of its development programs, nor does AidData capture instances of tied aid in a systematic fashion. However, in practice, researchers have found that nearly all Chinese loans are tied to some purchase of Chinese goods, the use of Chinese companies, or contracts that are not competed, reflecting China's desire to use developing country markets to absorb excess Chinese capacity and increase Chinese exports.¹⁰² By comparison, the United States' greater reliance on multilateral lending often removes the possibility of attaching similar conditions on its support by letting international organizations dictate mechanisms for implementation, a key difference in terms of the prevalence of tied aid between China and the United States.

Nearly all Chinese loans are tied to some purchase of Chinese goods, the use of Chinese companies, or contracts that are not competed.

99 Tobias Heinrich, "When Is Foreign Aid Selfish, When Is It Selfless?" *Journal of Politics*, Vol. 75, No. 2, April 9, 2013; Charles Wolf, Jr., Xiao Wang, and Eric Warner, *China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications*, RAND Corporation, RR-118, 2013; William Easterly and Tobias Pfutze, "Where Does the Money Go? Best and Worst Practices in Foreign Aid," *Journal of Economic Perspectives*, Vol. 22, No. 2, Spring 2008.

100 OECD, "Aid (ODA) Tying Status (DAC7b)," database, undated-a.

101 Catherine Weaver, "The Rise of China: Continuity or Change in the Global Governance of Development?" *Ethics and International Affairs*, Vol. 29, No. 4, Winter 2015.

102 Morris, Parks, and Gardner, 2020, p. 25.

Beyond tied aid, both China and the United States often attach other policy preconditions to receipt of their development assistance, financing, and other cooperation. Although Chinese loans often include confidentiality clauses, researchers have identified several common loan terms codifying such preconditions, including (1) requirements that development projects employ Chinese laborers and purchase Chinese manufactured goods, (2) requirements that a termination of diplomatic relations between China and the borrowing country would entitle the Chinese lender to demand immediate repayment, and (3) agreements to exclude Chinese lenders from collective restructuring initiatives like those designed by the Paris Club of creditor countries.¹⁰³ Moreover, Chinese hard infrastructure projects abroad often must conform to the People's Liberation Army (PLA)'s military specifications, raising questions about the dual-use functionality of Chinese investments in roads, ports, airfields, and other facilities.¹⁰⁴

Beijing frequently declares its aid to be free of such preconditions, touting its efforts instead as pursuing “win-win outcomes, noninterference in the domestic affairs of other countries, mutual respect, and friendship.”¹⁰⁵ In recent years, however, several recipient countries and local communities have begun to put added pressure on Chinese government and SOEs to address concerns over environmental, societal, and economic damage caused by such entities operating with inadequate oversight but with few formal means of recourse for local actors to seek changes in their behavior (see Box 6 for one such example in Greece).¹⁰⁶

Unlike their Chinese counterparts that seek to hide such preconditions through opaque lending terms, U.S. development programs are often openly and legally restricted based on recipient countries' adherence to governance and human rights conditions. The terms of these conditions have changed over time and reflect broader changes in national conceptions of the relationships among democracy, governance, and stability. During the Cold War, for instance, the United States frequently imposed economic conditions as a prerequisite for U.S. aid but did not rigidly enforce stringent human rights requirements.¹⁰⁷

¹⁰³ Gelpner et al., 2021.

¹⁰⁴ Daniel R. Russel and Blake H. Berger, *Weaponizing the Belt and Road Initiative*, Asia Society Policy Institute, September 2020, pp. 18–20; U.S.-China Economic and Security Review Commission, Hearing on China in Latin America and the Caribbean, May 20, 2021, pp. 57–58, 199. As noted in a recent RAND study, Chinese literature on strategic strongpoints emphasizes the People's Liberation Army's ability to harness a variety of facilities owned and operated by Chinese SOEs. For a more detailed discussion of current and potential military applications of dual-use commercial assets and enterprises, see Cristina L. Garafola, Timothy R. Heath, Christian Curriden, Meagan L. Smith, Derek Grossman, Nathan Chandler, and Stephen Watts, *The People's Liberation Army's Search for Overseas Basing and Access: A Framework to Assess Potential Host Nations*, RAND Corporation, RR-A1496-2, 2022, pp. 60, 64–65, 76.

¹⁰⁵ Banik, 2019.

¹⁰⁶ Rudyak, 2019.

¹⁰⁷ Tijen Demirel-Pegg and James Moskowitz, “US Aid Allocation: The Nexus of Human Rights, Democracy, and Development,” *Journal of Peace Research*, Vol. 46, No. 2, March 2009; Carothers, 2010; Subhayu Bandyopadhyay and E. Katarina Vermann, “Donor Motives for Foreign Aid,” *Federal Reserve Bank of St. Louis Review*, Vol. 95, No. 4, July/August 2013.

Box 6

Piraeus Port and the Negative Externalities of Chinese Strings Attached



The 2009 Greek debt crisis caused a sharp reduction in economic activity at the Port of Piraeus, Greece's primary seaport. Falling demand, halted repairs, and worker strikes exacerbated this problem as Athens struggled to restructure its debt payments and offload underperforming assets. To secure new investments, Greece approved a privatization agreement in 2016 that granted China Ocean Shipping Company (COSCO), a Chinese SOE and conglomerate, a 51 percent majority stake in the port authority. In exchange for mandatory investments valued at approximately 294 million euros over five years, COSCO committed to purchase an additional 16 percent stake by 2021. Upgrades to Piraeus' infrastructure enabled the port to become the largest container port in the Mediterranean.

However, the Chinese SOE's role in the port authority remained contentious. Several of the projects outlined in the 2016 agreement that gave COSCO a majority stake in the port remain incomplete. Although COSCO blamed the delays on local opposition and Greek bureaucracy, residents have filed lawsuits alleging the conglomerate failed to conduct an environmental impact assessment and illegally dumped waste from dredging operations on a regular basis, damaging the marine environment and nearby fishing waters critical to the local economy. Locals have also complained that the SOE has sourced materials from China rather than the local market and created substandard jobs for local workers. Although the Greek government has defended the arrangement and, in 2021, decided to grant COSCO a five-year extension, others have cited the episode as a cautionary tale of the strings attached to Chinese infrastructure lending. "Looking back, it would have been better for the Piraeus port not to be sold," said Werner Hoyer, president of the European Investment Bank, during a 2021 visit to Athens.

SOURCES: "Greece Completes Transfer of 16% Stake in Piraeus Port to COSCO," October 7, 2021, Reuters; Eleni Varvitsioti, "Piraeus Port Deal Intensifies Greece's Unease over China Links," *Financial Times*, October 19, 2021.

Following the September 11, 2001, terrorist attacks, the United States became much more likely to require adherence to principles of democratic governance and support for anti-terrorism policies as preconditions for receipt of aid in the early 2000s.¹⁰⁸

At the time of this writing, U.S. DFC lending includes (1) explicit upfront assessments of the potential environmental impacts of programs, (2) similar assessments of the effects of such lending on workers' rights, and (3) regular reviews of the quality of human rights protections in recipient countries.¹⁰⁹ Overall, receipt of U.S. development assistance generally is correlated with greater respect for human rights in recipient countries, despite the fact that the United States often relaxes such preconditions in specific regions, particularly the Middle East.¹¹⁰

This correlation could suggest that aid provision incentivizes improved adherence to such human rights standards. More likely, it could indicate that aid provision reflects a greater willingness on the part of the United States to work with and support countries with good human rights track records and to deny support to those countries that do not adhere to such standards. In China's case, we have similarly seen increased public debate in potential recipient nations over whether taking policy positions that increase alignment with China (such as ceasing diplomatic recognition of Taiwan) could be used to solicit greater Chinese investment. In either case, a detailed analysis of the effectiveness of such conditions at achieving each country's desired objectives in the developing world is outside the scope of this study, particularly to the extent that not providing support is used as a tool for promoting each country's broader objectives. This does not deny the fact that refusal to provide such assistance is clearly a central part of both countries' use of development assistance as a tool to promote preferred norms and policies.

KEY TAKEAWAYS

- The United States and China both rely on tied aid to ensure that a significant share of goods and services delivered in recipient countries are sourced from donor country firms.
- Beyond these arrangements, China frequently places economic preconditions on its aid to promote domestic economic benefits to Chinese private-sector entities.
- The United States frequently places governance, environmental, and human rights preconditions to promote its own norms and interests but is willing to relax these requirements when it perceives that foreign policy objectives override development objectives.

108 Demirel-Pegg and Moskowitz, 2009; Carothers, 2010; Bandyopadhyay and Vermann, 2013.

109 See, for example, DFC, "Information Summary for the Public: Puerta de Hierro Toll Road," August 2019.

110 Andrew Stravers and Dana El Kurd, "Strategic Autocracy: American Military Forces and Regime Type," *Journal of Global Security Studies*, Vol. 5, No. 3, July 2020.



Enhancing the Competitiveness of U.S. Development Assistance and Cooperation

Overall, this net assessment reveals several clear differences between the Chinese and U.S. approaches to development assistance and cooperation. These asymmetries represent opportunities for both countries to leverage development tools in pursuit of their own economic statecraft objectives in the developing world. These final sections summarize the key lessons learned from this net assessment along with the key steps required for the United States to enhance the competitiveness of U.S. development assistance and cooperation as tools of economic statecraft without sacrificing their effectiveness in pursuit of development objectives.

We assess that efforts to use U.S. assistance to achieve U.S. national security objectives must overcome two fundamental obstacles: (1) misconceptions in the United States regarding the true nature of China's economic engagement in the developing world and (2) weaknesses in the U.S. development approach abroad that stem from various aspects of China's own approach.

THE UNITED STATES SHOULD RECOGNIZE THE FUNDAMENTAL LIMITATIONS OF CHINA'S APPROACH

China's approach has attracted global attention because of the sheer scale of its development spending, the rapid increase in its global lending over the past decade, and the visibility of the resulting programs and projects. Chinese-constructed and -financed railroads, ports, telecommunications networks, and electricity networks offer highly visible physical reminders of China's presence in the developing world. In contrast, the United States has emphasized supporting less visible—and less measurable—aspects of human and societal development, such as education, public health, and institutional reforms.

Consequently, the United States and its partners have become concerned that China is winning a *de facto* contest for relative influence in the developing world. Although the scale and nature of Chinese assistance and financing does raise concerns, our net assessment reveals several common misconceptions that inhibit the United States' understanding of the challenges it confronts in competing with China and that may hinder development of effective U.S. policy solutions.

First, China's economic engagement in the developing world should not be conceptualized as aid or assistance.

Beijing frequently characterizes its own actions not as aid or assistance to developing countries but as development cooperation, development coordination, mutual assistance, and South-South cooperation.¹¹¹ Indeed, there is some truth to this framing: China's lending and investment efforts are appropriately conceptualized as economic engagement abroad to support China's domestic economy, foreign economic goals, and foreign political goals, with the specific terms of each financing package

111 The State Council Information Office of the People's Republic of China, 2021; Mardell, 2018.

tailored to advance these aims and mitigate risk. Some of these packages may have concessional terms—as our net assessment revealed, such provisions are more likely in Chinese loans compared with U.S. loans—but nearly all of China’s lending is tied to the purchase of Chinese goods or use of Chinese companies or to contracts that are not competed.¹¹² China rarely relies on grants—and eschews international standards for ODA—in part to blend other forms of state-directed investments alongside ODA-like flows. These variations from the U.S. model reflect China’s differing objectives and the reality that Chinese financial support for development projects is not meant as traditional assistance or aid.

Second, the miscategorization of China’s efforts as aid or assistance has contributed to an overreliance on U.S. development agencies as the primary solution to the problem. Whereas China leverages much of its own quasi-private sector (i.e., SOBs and SOEs) to support its national objectives in the developing world, U.S. discussions regarding economic statecraft in developing countries are often limited to the role of official U.S. aid agencies, such as USAID, DFC, and MCC, and thus significantly undercount the total U.S. private-sector activities that could equally support U.S. objectives (writ large) abroad. Comprehensively accounting for the variety of economic statecraft tools available to promote U.S. interests abroad requires greater consideration of the role of the U.S. private sector, including for-profit businesses and NGOs, in building economic and social capacity overseas. Activities that might be performed by Chinese SOEs with top-down direction are performed by U.S. private-sector entities with bottom-up initiative. Accordingly, any strategy designed to achieve a more competitive U.S. approach to development assistance and cooperation must account for the net impact of such actors.

Third, the U.S. preoccupation with Chinese financing does not negate the continued prospects for U.S. development assistance (particularly through grants) to achieve broader U.S. foreign policy goals. The differences between U.S. and Chinese approaches to development can be explained in part by the differences among each country’s priorities, objectives, and political norms. China’s emphasis on large-scale infrastructure projects and transactional lending through the BRI primarily provides an outlet for domestic overcapacity in key Chinese manufacturing and labor sectors. The U.S. approach aims—and often succeeds¹¹³—at encouraging broader societal development in line with U.S. national security priorities by supporting not just local economic growth or fungible political influence but also public health and shared norms that promote global stability. If done well, this approach can achieve sustainable progress without putting recipient countries at risk of financial instability, local corruption, or ineffective governance. When all sources

112 Morris, Parks, and Gardner, 2020, p. 25.

113 A systematic assessment of the effectiveness of all U.S. development assistance is well beyond the scope of this net assessment. However, for a broad discussion of positive empirical evidence of the effectiveness of U.S. aid and assistance, see Steve Radelet, “Once More into the Breach: Does Foreign Aid Work?” Brookings Institution, May 8, 2017.



of U.S. development spending are added up, it is clear that the United States and U.S.-based private-sector actors are putting significant effort behind these goals and China is not.

Fourth, despite evidence of the short-term benefits China gains from its lending through the BRI, it is not clear that China's approach is sustainable or effective over the long term. China's more direct focus on supporting economic projects through development financing provides developing countries with a means to finance capital-intensive economic projects that these countries are less likely to be able to finance through their own capital or through global capital markets. This provides local government leaders the opportunity to showcase tangible evidence of economic development to their own citizens and brings direct benefit to China—at least in the short term—through increased opportunities for Chinese FDI, labor contracts for Chinese workers, and export markets for Chinese goods.

Yet the worsening debt crisis among low-income countries since 2020 has exposed flaws within the Chinese approach. Many debtor countries have struggled to repay Chinese loans, a problem compounded by the COVID-19 pandemic and global inflation. Underwhelmed by the economic benefits of Chinese-financed projects, overburdened by the resulting debt, and confronting public criticism of such projects, many governments have begun to reassess the terms of their arrangements with China and, in some cases, to express new ill will toward China.¹¹⁴

These criticisms demonstrate a more general problem that researchers have noted: The short-term appeal of China's approach to developing countries does not necessarily generate longer-term positive perceptions of China, at least not more so than the United States' more diffuse assistance. One study of public opinion polling in Africa, for example, found that U.S. development programs are just as closely correlated with friendly perceptions among local populations compared with China's more expansive efforts, in part because public attitudes are less driven by individual project-level spending than they are by broader perceptions of donor nation's goals in supporting a given country.¹¹⁵

Already, Chinese political and financial leaders appear to be reevaluating the political and financial returns on their

The short-term appeal of China's approach does not necessarily generate longer-term positive perceptions.

114 Dube and Steinhauser, 2023; James Kynge, Kathrin Hille, Benjamin Parkin, and Jonathan Wheatley, "China Reckons with Its First Overseas Debt Crisis," *Financial Times*, July 21, 2022; "Faced with an Overseas Debt Crisis, Will China Change Its Ways?" *The Economist*, August 24, 2022; Jason Douglas, "China's Lending Strategy in Emerging Markets Risks Prolonging Borrowers' Pain," *Wall Street Journal*, September 8, 2022. For an example that predates the COVID-19 pandemic, see Saeed Shah, "China's Belt-and-Road Initiative Puts a Squeeze on Pakistan," *Wall Street Journal*, April 3, 2019.

115 Afrobarometer estimates suggest that perceptions of both Chinese and American influence has "less to do with specific actions or investments of each—about which ordinary Africans may have limited information—but instead reflect an overall sense of whether external powers are generally contributing to the well-being of the respondent's country" (Thomas P. Sheehy and Joseph Asunka, "Countering China on the Continent: A Look at African Views," United States Institute of Peace, June 23, 2021).

investments.¹¹⁶ For example, some Chinese banking executives—looking to limit their accountability in the event of a default—have threatened to stop financing projects likely to be unprofitable absent clear direction that such loans serve some broader policy objective for China.¹¹⁷ Senior Chinese government officials also have begun to push for greater risk controls in China's lending practices and to reduce lending perceived to be reckless.¹¹⁸ With the majority of China's overseas loans held by countries in financial distress, Chinese banks have also been forced to begin accepting losses when creditors fail to repay loans on time—rather than simply extending the maturity of such loans as they have done in the past—in some cases even working with such international institutions as the Paris Club to negotiate debt relief.¹¹⁹ Overall, this suggests that U.S. concerns over China's transactional influence gained through major infrastructure lending might be overstated.

THE UNITED STATES MUST ALSO RECOGNIZE THE CHALLENGES CREATED BY CHINA'S APPROACH

Despite these misconceptions regarding the nature of the threat posed by Chinese assistance, our net assessment has revealed several key weaknesses in the U.S. approach, particularly to the extent that the United States looks to maintain influence in the face of Chinese inroads in strategic regions across the developing world.

First, China overwhelmingly outspends the United States in certain key sectors, although it maintains a more modest lead in aggregate spending. Our net assessment finds that differences in overall volume of assistance between China and the United States alone do not signal a major strategic mismatch in each country's reliance on development assistance as a tool of economic statecraft. But China's lending efforts are so heavily concentrated in a few key sectors—specifically energy, mining, and hard infrastructure projects—that the United States might struggle to compete with China at scale without major changes in its own approach. Moreover, the types of projects that China frequently emphasized often represent the most-desired forms of assistance for developing countries, to the extent that local leaders are often less able to acquire sufficient capital domestically or on global markets to facilitate similar investment.¹²⁰

The potential gains for China—and the potential costs to the United States—extend beyond a relative boost in Chinese influence with local leaders. Beijing could choose to leverage

116 It is estimated that Chinese overseas lending peaked in 2016 and then declined over the next several years, though by how much remains unclear (Wheatley and Kynge, 2020; Mingey and Kratz, 2021).

117 Lingling Wei, "China Reins In Its Belt and Road Program, \$1 Trillion Later," *Wall Street Journal*, September 26, 2022.

118 Wei, 2021.

119 Rachel Savage, Martin Pollard, and Yew Lun Tian, "China Debt Restructuring Policy Under Scrutiny as More Countries Demand Relief," Reuters, September 8, 2022.

120 "Chinese Loans and Investment in Infrastructure Have Been Huge," *The Economist*, May 20, 2022.



Chinese-built critical infrastructure in developing countries for dual-use military applications or restrict U.S. access to critical energy and natural resources (the primary sectoral focus of Chinese lending efforts).¹²¹ For instance, Chinese firms' dominant position in cobalt, lithium, and aluminum extraction mines poses potential risks to the U.S. defense industrial base should China choose to restrict access to such resources in a crisis or conflict.¹²² China's decision to ban rare earth mineral exports to Japan for two months in 2010 during a heightened period of tensions over disputed territory demonstrates its willingness to leverage access to such materials as a coercive tool in a crisis.¹²³

Chinese control over extraction of critical resources has more than just security implications: It could also affect U.S. market access to critical materials required for future technologies needed to combat climate change.¹²⁴ More directly, Chinese programs have caused downstream environmental and resource predation effects on local developing economies that the United States and international financial organizations have been or may be asked to help address in the future.¹²⁵

Second, China's approach might be better designed toward capturing and influencing elites and key decisionmakers in developing countries than the U.S. approach. Because China's activities in the developing world are largely designed to support Chinese employment and business activity abroad, China also targets its assistance toward building influence among recipient governments and SOEs with decisionmaking authority to accept Chinese preconditions on loan implementation. To this effect, our net assessment reveals that China is much more likely than the United States to implement its development programming through recipient governments, almost always in coordination with a Chinese SOE. And China's emphasis on hard infrastructure projects affords local leaders the opportunity to build legitimacy by demonstrating tangible signs of development to their own citizens while simultaneously increasing opportunities for local corruption.¹²⁶

An important reason that China's approach to using development cooperation to accrue elite influence is successful, at least for now, is the same reason that any capitalist economy is highly

121 For discussion, see Russel and Berger, 2020, pp. 18–20; U.S.-China Economic and Security Review Commission, 2021, pp. 57–58, 199; Garafola et al., 2022, pp. 60, 64–65, 76.

122 For discussion, see John Xie, "Studies Reveal China's Dominant Position in High-Tech Minerals," *Voice of America*, May 30, 2021.

123 "China Resumes Rare Earth Exports to Japan," *BBC News*, November 24, 2010.

124 For discussion of China's recent acquisition of cobalt mines in Congo, which is responsible for two-thirds of all global cobalt production, see Dionne Searcey, Michael Forsythe, and Eric Lipton, "A Power Struggle over Cobalt Rattles the Clean Energy Revolution," *New York Times*, December 7, 2021. Also see Rodrigo Castillo and Caitlin Purdy, *China's Role in Supplying Critical Minerals for the Global Energy Transition: What Could the Future Hold?* Brookings Institution, July 2022.

125 Dube and Steinhäuser, 2023.

126 Jonathan E. Hillman, "Corruption Flows Along China's Belt and Road," Center for Strategic and International Studies, January 18, 2019.

Chinese lending practices will weaken efforts to promote financial transparency in developing countries and complicate U.S. attempts to evaluate risk.

productive: The customers of China's activities (the developing countries, and particularly their leaders) want what China is offering and find value in the Chinese approach. But although Beijing's assistance might help improve economic outcomes in recipient countries, at least in the short run, it is also associated with declines in the quality of governance provided to local populations in equal measure.¹²⁷ Moreover, Beijing's assistance affords opportunities for China to leverage these elites to disrupt otherwise beneficial assistance efforts from China's rivals, as seen in China's disinformation efforts (since 2019) aimed at securing a parliamentary revolt against ratification of the MCC's relatively benign compact in Nepal. This episode represents one example of Chinese interference in a country in its near periphery, and a broader pattern is not yet established. However, the disruption underscores that the United States lacks a clear understanding of how to preempt and respond to similar messaging campaigns if they were to become more common, particularly as China's global security ambitions continue to expand into other areas of the world.¹²⁸

However, China's approach to elite capture might not ultimately provide permanent influence, particularly to the extent that China's opaque lending terms might create uncertainty over China's true intentions in supporting recipient countries or domestic backlash over corruption.¹²⁹ Either way, the United States' own approach to development is less primed, perhaps rightly so, toward building similar elite-based influence. U.S. aid policy is not indifferent to local views, but it privileges community-level effects and seeks to accommodate diverse interests.

Third, China's approach comes with systemic risks that might undermine the effectiveness of U.S. development assistance and cooperation. This is in part because China's approach might increase fragility in developing countries by threatening their financial solvency and decreasing the transparency of their financial situation to both domestic policymakers and would-be donor nations. At a minimum, this means that Chinese lending practices will weaken efforts to promote financial transparency in developing countries and complicate U.S. attempts to evaluate risks.

China's unwillingness to follow established global standards for development assistance, its focus on working directly through local governments rather than international organizations when feasible, and its reliance on large-scale lending at attractive,

127 Pierre Mandon and Martha Tesfaye Woldemichael, "Has Chinese Aid Benefitted Recipient Countries? Evidence from a Meta-Regression Analysis," International Monetary Fund, February 2022.

128 The PRC's recently released (in February 2023) Global Security Initiative Concept Paper begins by stating that "the issue of security bears on the well-being of people of all countries, the lofty cause of world peace and development, and the future of humanity" and proceeds to outline China's vision for security for the whole world for the first time, in contrast with China's prior foreign policy white papers (such as its first one in 2017) that focused solely on the Asia-Pacific region. See Ministry of Foreign Affairs of the People's Republic of China, "The Global Security Initiative Concept Paper," February 21, 2023.

129 For discussion, see Samantha Custer, Tanya Sethi, Rodney Knight, Amber Hutchinson, Vera Choo, and Mengfan Cheng, *Listening to Leaders 2021: A Report Card for Development Partners in an Era of Contested Cooperation*, AidData at the College of William & Mary, June 2021.



concessional rates all introduce new forms of risk into the global financial system. As an extreme example, Chinese lending terms can include unusual confidentiality clauses and provisions to make the Chinese debt effectively senior to other bilateral debt. Such terms often look to omit these loans from the usual restructuring that bilateral donors undertake when a recipient country faces repayment problems.¹³⁰ In countries where it is active, China does not usually liaise with other bilateral providers of aid or development finance.¹³¹ These risks could increase broader demands on international organizations (such as the International Monetary Fund) to aid in bailouts of developing countries or prevent external actors from judging risk properly in making their own decisions. Without complete and accurate information on potential recipients' existing obligations, the United States' ability to scale up its own development financing efforts in a responsible manner could be affected.

Beyond risks to the global financial system, China's financing activities also create challenges within developing nations themselves that could threaten the ability of these nations to effectively manage their own finances without external support. For example, financing terms on major Chinese loans are often kept opaque to senior leaders within recipient countries, and access to data is either limited or unavailable.¹³² By one account, 50 percent of lending to developing countries is not reported in official debt statistics, suggesting that many countries are unaware of the real depth of their own balance sheets.¹³³

GUIDELINES FOR A NATIONAL STRATEGY FOR DEVELOPMENT AS A TOOL OF ECONOMIC STATECRAFT

Overall, these findings suggest that a revised U.S. approach might be required to enhance the competitiveness of U.S. development assistance and cooperation in the developing world. Implementing such an approach would correct baseline misconceptions about the nature of Chinese development efforts and overcome the unique challenges created by China's approach for U.S. development activities going forward. Below, we outline the core tenets of a new strategy for leveraging development as a tool of U.S. economic statecraft along with recommendations for improving the competitiveness of future U.S. efforts.

Most fundamentally, **efforts to better align U.S. development assistance to compete with China and achieve U.S. national security objectives in the developing world will require improving coordination—and establishing a common vernacular—among the multiple government organizations involved** in the formulation, implementation, and oversight of

130 Gelpert et al., 2021, pp. 2, 6.

131 Alisée Pornet, "Every Step Makes a Footprint: China's Aid and Development as Incremental Policies," in Nadège Rolland, ed., *An Emerging China-Centric Order: China's Vision for a New World Order in Practice*, The National Bureau of Asian Research, 2020, p. 111.

132 Aktoty Aitzhanova, "The Belt and Road Initiative: Case of Kazakhstan," Nazarbayev University Forum, *China and the World: Engaging with a Reemerging Superpower*, Astana [Nur-Sultan], 2018, p. 9.

133 Sebastian Horn, Carmen M. Reinhardt, and Christoph Trebesch, "China's Overseas Lending," *Journal of International Economics*, Vol. 133, November 2021.

U.S. economic engagement with the developing world. Our interviews with various U.S. government officials to support this research indicated that the myriad agencies involved in U.S. development policy and implementation lack a common operating picture and, as a result, are ill equipped to identify opportunities for collaboration, prevent or mitigate potential contradictions in policy, or reduce redundancies.¹³⁴ Put simply, different parts of the government lack a clear understanding of the tools, objectives, and priorities of other agencies operating in developing countries.

Therefore, the United States should consider publishing a single, unclassified, and publicly releasable development strategy that transparently diagnoses the challenge posed by China's efforts in the developing world, articulates U.S. priorities, and sets a consolidated overall approach that provides a common direction for the multiple actors, goals, and funding streams involved in enacting U.S. development policy.¹³⁵ Although a new strategy on its own will prove insufficient to reorient U.S. policy, it can provide clear guidance and direction to the broader U.S. government to execute a series of needed changes to its approach to development programs. The strategy can also provide a transparent rationale to the American public and international audiences as to how U.S. development spending abroad is not only beneficial to U.S. national security but also, in contrast to China's approach, effective at building sustainable development in recipient countries.

In the remaining sections, we propose six core components of such a strategy, along with specific recommendations for strengthening U.S. development assistance and cooperation as tools of economic statecraft for each step in the process. These steps are

- 1 **Define the problem** by developing a new lexicon and gathering better data.
- 2 **Set clear goals** that avoid mimicking China's transactional approach.
- 3 **Acknowledge the costs (and risks)** the United States is willing to accept to achieve its objectives.
- 4 **Expand the network** of private-sector and multilateral-development actors.
- 5 **Promote the benefits** of U.S. efforts through proactive messaging.
- 6 **Assess the effectiveness** of U.S. development efforts at the strategic level.

134 USAID official, interview with the authors, April 29, 2022; U.S. government official, interview with the authors April 29, 2022; U.S. government official, interview with the authors, May 9, 2022; U.S. Department of State official, interview with the authors, May 20, 2022; Export-Import Bank official, interview with the authors, May 20, 2022.

135 Richard P. Rumelt, *Good Strategy, Bad Strategy: The Difference and Why It Matters*, Crown Business, 2011.

Step One: Define the Problem by Developing a New Lexicon and Gathering Better Data

The first step in formulating a new strategy and approach to development as a tool of economic statecraft must be to build new ways to understand—and monitor—U.S. and Chinese economic engagement in the developing world against a consistent rubric. In the absence of a clear alternative, U.S. decisionmakers and analysts often describe Chinese efforts under the BRI using the language of development assistance or aid. As this report has demonstrated, such language obscures critical elements of Chinese economic statecraft and needlessly narrows U.S. understanding of the variety of tools available to promote its own interests. **More accurate terminology is needed to describe the types of tools China employs, to capture the actors involved in China's approach, and to conceptualize the impact of China's economic engagement** on ODA efforts from donor nations following established standards for transparent aid. Such efforts are more than semantic; they can also help efforts by the United States (ideally with the support of multilateral organizations, such as the OECD) to build wider understanding of the systemic risks posed by China's more opaque, transactional approach to lending in the developing world.

Moreover, a new lexicon is needed to ensure that the U.S. government and international aid organizations are collecting and sharing the right data to accurately track the scale and efficacy of Chinese activities in the developing world. An important barrier to understanding opportunities to enhance the competitiveness of U.S. development assistance is a lack of systematic data that can be used to compare like with like. International efforts to encourage Chinese transparency have failed, and significant gaps in public understanding of Chinese financing are likely to continue. Although private research organizations (such as AidData) have stepped in to fill this void, the U.S. government should invest in efforts to build systematic accounts of Chinese development efforts that can be easily and comprehensively compared with U.S. development activities. Our net assessment points to the type of data that need to be compared: (1) the volume of aid or financing; (2) the mechanisms used, such as grants or loans and the terms of those loans; (3) the sectors into which aid or financing flows; (4) the implementing organizations; and (5) the conditionalities of such aid. As of this writing, only a handful of these dimensions can be compared precisely between U.S. and Chinese efforts. **The U.S. government should consider creating a Bureau of Development Statistics, tasked with serving as the principal fact-finding entity to track U.S. and Chinese development and foreign assistance data,** with a mandate to facilitate more-accurate accounting of U.S. development activities compared with related Chinese activities. Such an organization would ideally be situated within an existing agency, such as USAID or the Department of State.

1

2

Step Two: Set Clear Goals That Avoid Mimicking China's Transactional Approach

Efforts to reorient U.S. development assistance and cooperation toward economic statecraft priorities should be guided by a set of affirmative interests and values beyond countering China alone.

Too narrow a focus on the United States' relative position vis-à-vis China risks entrapping the United States in an unproductive—and potentially costly—cycle of reactive policies that do not further other U.S. interests.¹³⁶ The United States does not need to contest *all* Chinese activities in the developing world, nor should it mimic China's approach as a means of outspending or out-contesting China's own efforts. Developing countries need infrastructure, and U.S. businesses, like their Chinese counterparts, also can benefit from better ports, more reliable electricity, and better ground transportation. To the extent that China's activities support local and regional growth, it is not in the U.S. interest to stop (or be seen as stopping) that growth.

At the same time, an exclusive emphasis on the altruistic aspects of development is unrealistic and out of step with the very real challenges of competition with China. However, the need for reform does not mean that the United States should directly replicate China's approach; both the U.S. and Chinese domestic economic systems and foreign policy priorities are different enough that this might prove impractical even if desired. China's efforts are akin to that of a state-run universal bank that tailors its financing and investment to specific customers, drawing from the full range of financial services.¹³⁷ Given its mostly autonomous private sector, the U.S. government will never be able to replicate the Chinese way of deploying capital, nor should it seek to do so in pursuit of foreign policy objectives alone at the expense of its own domestic economic vitality. Even more so, the Chinese transactional approach to development spending is not aligned with long-standing U.S. objectives of promoting regional stability through economic growth, state capacity-building, and promotion of human rights.

Equally important, efforts to mimic China's approach might prove unsuccessful or ill advised in terms of the overall net benefits to the United States and recipient countries of U.S. assistance, particularly in terms of unbridled lending to support major infrastructure projects that saddle developing countries with unsustainable levels of debt. Rather than looking to match China's lending practices at comparable scale, **the United States might be better served by more-targeted efforts to expand its own development financing into a subset of the most-critical regions and sectors, alongside simultaneous efforts to bring greater transparency to more-egregious Chinese lending practices in the developing world.** As

136 Jessica Chen Weiss, "The China Trap: U.S. Foreign Policy and the Perilous Logic of Zero-Sum Competition," *Foreign Affairs*, September/October 2022.

137 On universal banking, see George J. Benston, "Universal Banking," *Journal of Economic Perspectives*, Vol. 8, No. 3, Summer 1994.



Beijing reevaluates its reliance on heavy infrastructure projects, recent efforts by the United States to wield more-sustainable mechanisms for infrastructure financing could pay dividends at fulfilling continued demand for transportation and energy infrastructure in the developing world.

In resisting the temptation to chase Chinese investments, **the United States also should accept that it is not necessary—and perhaps not feasible—to compete in every country.** In some circumstances, additional investments or assistance might be unlikely to produce equivalent political gains. In other cases, a decision not to compete might be necessary to avoid supporting authoritarian or corrupt regimes that contribute to regional instability. In such cases, the **United States should not shy away from publicly explaining its rationale and showcasing the relative sustainability of the U.S. approach in the long-term.**

Step Three: Acknowledge the Costs (and Risks) the United States Is Willing to Accept to Achieve Its Objectives

Because China's primary incentives for its own development efforts focus on finding outlets for excess domestic capacity, many Chinese development projects take on elevated levels of risk in terms of likelihood of loan repayment or risk of project failure. Nevertheless, China's willing embrace of such risks in pursuit of its own economic statecraft strategy suggests some modifications to the U.S. approach. U.S. development agencies involved in lending, such as the Export-Import Bank and the DFC, also can accept risk of loss, but the amount of acceptable risk these agencies can bear is established by legislation and might be too narrow when viewed in the context of efforts to outcompete China in the developing world. **The U.S. Congress could consider raising existing caps on the overall percentage of U.S. development finance efforts likely to lead to default, particularly in high-priority economic sectors (such as natural resource extraction and energy) and priority regions of the world for U.S.-China competition (such as Southeast Asia and Latin America).** For the Export-Import Bank, this might involve raising the percentage default cap on all export and import credits. For the DFC, this might involve raising the contingent liability cap (i.e., how much DFC *might* lose in the course of its lending). Either way, a revised U.S. strategy for development must declare outright the countries and sectors in which the United States is willing to take greater risk to pursue shared, and even unilateral, foreign policy objectives. One option to make this option more politically palatable would be to lend at a higher rate to riskier projects, as is the usual practice in the private sector.



Raising these caps likely will lead to greater financial losses and to charges of favoring certain businesses over others. However, the strategy described above would provide both solid guidelines for which projects could receive the benefits of greater risk tolerance and justification for providing that greater risk tolerance to those projects. **This approach could also require greater capacity within existing U.S. development finance organizations to assess the risk and rewards of more-expansive lending efforts in a responsible manner. It might also entail a greater willingness to finance more failures or generate lower average returns when doing so is in the broader interest of the United States.**

However, we do not endorse a blanket decrease in standards, a shift that could create systemic risks that would neither benefit the United States nor the countries it seeks to assist. Rather, the development enterprise should consider building processes to identify candidate projects with unique potential to further vital national security interests against rigorous criteria, all in order to weigh those benefits against the ensuing costs the United States might need to pay to pursue such less viable projects in pursuit of broader foreign policy objectives.

4

Step Four: Expand the Network of Private-Sector and Multilateral-Development Actors

The miscategorization of Chinese activity as development assistance has contributed to an overemphasis on U.S. development agencies (such as USAID and DFC) as the sole venues through which the United States can compete for influence in the developing world at the expense of other tools of economic statecraft. Our interviews suggest that U.S. development agencies are already taking steps to improve coordination and information-sharing with other federal actors (such as the Departments of Commerce, Labor, and Transportation) that possess relevant expertise and programs but are not conventionally considered major players in U.S. development policy.¹³⁸ However, our net assessment suggests that the United States could better exploit two additional sources of economic influence to gain a competitive advantage: (1) its large and diverse private sector and (2) its extensive network of foreign allies, partners, and multilateral organizations that share the U.S. desire to advance the existing set of norms for sustainable development.

The United States should untap the potential of the U.S. private sector in two ways. First, **U.S. development agencies could take better account of U.S. private-sector activities when designing U.S. ODA**, ideally so that the two can complement each other. As discussed in our net assessment, U.S. grantmaking by NGOs alongside U.S. FDI in developing countries rivals U.S. ODA in scale. Greater efforts to understand the sectoral and geographic distribution of these private-sector efforts could

138 U.S. government official, interview with the authors, May 26, 2022.



enable U.S. ODA to target complementary rather than overlapping priorities. Similar initiatives are underway within specific U.S. government agencies, but greater information-sharing among U.S. development and finance stakeholders would be beneficial.

Second, **U.S. government agencies could take actions to incentivize private-sector activities that help the United States achieve its development, foreign policy, and national security goals.** For example, the U.S. Export-Import Bank and DFC could institutionalize programs to build relationships with major construction, transportation, and communications businesses and establish a system to highlight prospective projects to the private sector, such as port investments, that are of particular significance to U.S. national interests and likely to receive U.S. support. Likewise, the U.S. government could establish conduits to collect information from private businesses on commercial opportunities worldwide. This could entail developing and deploying such financial instruments as concessions and guarantees to mitigate the risk associated with infrastructure projects in developing countries.

Through PGII, the Biden administration has already conveyed its support for the idea that official financing can encourage private capital to invest in identified projects. However, as some observers have noted, “this notion remains more promise than reality.”¹³⁹ Policy experimentation might be necessary, and that also means more tolerance of risk on the part of the political leadership that authorizes, funds, and provides oversight of U.S. development agencies.¹⁴⁰ Notably, however, this would still contrast with China’s approach, which mostly offers state-to-state financing.¹⁴¹ A new U.S. approach would be a larger and more flexible business-to-state path for financing from the U.S. private sector to developing countries themselves. Additional assurances from policymakers might be necessary to communicate to recipient nations the benefits of private management in specific circumstances, particularly when backed by U.S. government support.

Beyond the role of the private sector, **the U.S. government could also seek opportunities to promote greater multilateral cooperation and to encourage allied and partner investments against complementary rather than duplicative areas of assistance.**¹⁴² The United States’ strong network of donor nation allies and partners is one of its most significant advantages over China. In addition to PGII, the United States could pursue opportunities to work multilaterally *with* its allies and facilitate coordination among friendly countries on projects in which the United States is ill suited to engage directly. Similar to its efforts to coordinate defense-focused security

139 Savoy and Mckeown, 2022

140 DFC official, interview with the authors, May 19, 2022; U.S. government official, interview with the authors, May 26, 2022; Export-Import Bank official, interview with the authors, June 21, 2022.

141 Savoy and Mckeown, 2022.

142 U.S. Department of State official, interview with the authors, May 26, 2022.

cooperation programs with major allies, the United States can identify sectors in which other friendly countries are better positioned (whether because of technical expertise, local knowledge, or political conditions) to provide assistance or financing in lieu of direct U.S. efforts. Moreover, the United States could work to promote the centrality of multilateral organizations in overseeing and enforcing standards for effective development assistance, recognizing that the United States already implements a significant portion of its assistance through such organizations in line with established standards, whereas China does not. In seeking to promote multilateral engagements, the United States will need to ensure that its bilateral engagements are supportive and not in conflict.

Step Five: Promote the Benefits of U.S. Efforts Through Proactive Messaging

One other component of such a strategy could be to develop a coordinated message to recipient nations and the broader international community articulating the benefits of the U.S. approach to development assistance and cooperation. **At the strategic level, the United States could publicly and consistently articulate how its own economic statecraft priorities and foreign policy objectives are aligned with the development objectives of recipient countries** of its assistance, in contrast to China's more transactional approach. Moreover, the United States could forcefully make the case that its efforts are more likely to deliver long-term sustainable progress. The United States could also work through multilateral forums to mitigate counterproductive Chinese activities in international organizations that attempt to rewrite existing aid and governance standards according to China's preferences. The goal would be to ensure that these institutions do not legitimize the harmful aspects of China's development practices. Much of this strategic-level advocacy, including through international organizations, is already well underway within the U.S. government.¹⁴³

In terms of more-targeted messaging, the MCC's recent experience confronting Chinese disinformation in Nepal portends clear lessons for U.S. public diplomacy related to development programs going forward. **It could prove necessary and beneficial for major U.S. development projects to craft public dissemination and marketing strategies at the onset of new projects**, focused on communicating the benefits to

143 U.S. Department of State official, interview with the authors, May 26, 2022.



local economies and civil society, elevating the role of trusted local actors in supporting and implementing U.S. assistance, and providing a transparent and proactive U.S. rationale for supporting such projects. And where there is potential overlap in the security interests of the United States and the development objectives it pursues with a partner nation—such as was the case in Nepal—the United States must take great care to articulate its objectives in an honest and transparent way and avoid provocative rhetoric that creates easy opportunities for China to malign U.S. intent or activities.

One additional challenge should also be addressed, focused on relative differences in the ability of Chinese and U.S. development efforts to promote elite influence. As discussed, China's more targeted approach appears to be more effective—at least compared with the more diffuse, population-based U.S. approach—at capturing influence among key local decisionmakers in developing countries. Our research would not indicate that the United States should replicate China's approach directly; not only do China's efforts create downstream governance and corruption challenges, but these efforts also would be challenging for the United States to match at scale. Rather, **the United States should identify the priority countries in which it is necessary—for national security reasons—to directly challenge Chinese elite influence with its own programs targeted at enhancing U.S. relationships with key decisionmakers in a responsible manner.** This could include targeted lending to support high-priority infrastructure projects in a manner analogous to China's BRI efforts, at least when consistent with existing U.S. standards for such assistance. But just as likely, it could include the provision of other tools of U.S. economic statecraft and foreign policy, including trade and investment efforts, high-level diplomatic engagements, or even defense security cooperation activities in a coordinated manner. Such an approach would require not just an upfront strategy to identify priority countries but (1) clear data on Chinese lending practices and success at elite capture and (2) robust coordination across the U.S. government to identify the most-relevant (and most-responsible) policy tools to use in any given situation.



6

Step Six: Assess the Effectiveness of U.S. Development Assistance and Cooperation at the Strategic Level

Finally, it is worth noting that any effective strategy requires regular and sustained assessments of its effectiveness. A constant feature of U.S. development spending is the need for regular assessment, monitoring, and evaluation of the impact of individual projects on local development outcomes. However, the U.S. government lacks an established process to assess the effectiveness of the combined portfolio of U.S. development efforts in advancing specific U.S. foreign policy and national security goals. Although a universal assessment of the effectiveness of all global U.S. spending efforts would almost certainly be too unwieldy to be useful, **the United States could conduct more-strategic assessments of the usefulness of development assistance and cooperation in critical regions and sectors, or against specific foreign policy or national security objectives.** This could build off established assessment processes and frameworks developed for bilateral defense and diplomacy programs. This would require improved data to better compare U.S. and Chinese approaches and clear intermediate measures of effectiveness to assess the impact of specific types of spending in priority regions. Such assessments have traditionally been the purview of development and policy researchers but should also become integral parts of U.S. government strategy and policy formulation to support competition with China in the developing world.

Abbreviations

B3W	Build Back Better World
BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CDB	China Development Bank
CHEXIM	Export-Import Bank of China
CIDCA	Chinese International Development Cooperation Agency
COVID-19	coronavirus disease 2019
CRBC	China Road and Bridge Corporation
DAC	Development Assistance Committee
DFC	U.S. International Development Finance Corporation
FDI	foreign direct investment
GDP	gross domestic product
MCC	Millennium Challenge Corporation
NGO	nongovernmental organization
OECD	Organization for Economic Cooperation and Development
ODA	official development assistance
ODF	official development financing
OPIC	Overseas Private Investment Corporation
PGII	Partnership for Global Infrastructure and Investment
PRC	People's Republic of China
SOB	state-owned bank
SOE	state-owned enterprise
USAID	U.S. Agency for International Development

References

- AidData, "AidData's Global Chinese Development Finance Dataset, Version 2.0," dataset, September 2021.
- Akhtar, Shayerah I., and Nick M. Brown, *U.S. International Development Finance Corporation: Overview and Issues*, Congressional Research Service, R47006, January 10, 2022.
- Aitzhanova, Aktoty, "The Belt and Road Initiative: Case of Kazakhstan," Nazarbayev University Forum, *China and the World: Engaging with a Reemerging Superpower*, Astana [Nur-Sultan], 2018.
- Amatya, Kripendra, "The MCC and Nepal's Strategic Ties with the US," *The Diplomat*, February 19, 2020.
- American Enterprise Institute and the Heritage Foundation, "China Global Investment Tracker," database, undated. As of January 17, 2022:
<https://www.aei.org/china-global-investment-tracker>
- Bandyopadhyay, Subhayu, and E. Katarina Vermann, "Donor Motives for Foreign Aid," *Federal Reserve Bank of St. Louis Review*, Vol. 95, No. 4, July/August 2013.
- Banik, Dan, "Coordinating Chinese Aid in a Globalized World," Carnegie Endowment for International Peace, January 2019.
- Benston, George J., "Universal Banking," *Journal of Economic Perspectives*, Vol. 8, No. 3, Summer 1994.
- Blanchard, Jean-Marc F., Edward D. Mansfield, and Norrin M. Ripsman, "The Political Economy of National Security: Economic Statecraft, Interdependence, and International Conflict," *Security Studies*, Vol. 9, No. 1–2, 1999.
- Boulding, Carew, "Dilemmas of Information and Accountability: Foreign Aid Donors and Local Development NGOs," in Peter A. Gourevitch, David A. Lake, and Janice Gross Stein, eds., *The Credibility of Transnational NGOs: When Virtue Is Not Enough*, Cambridge University Press, 2012.
- BP p.l.c., *BP Statistical Review of World Energy*, 71st ed., 2022.
- Bräutigam, Deborah, "China, The World Bank, and African Debt: A War of Words," *The Diplomat*, August 17, 2020.
- Brizuela de Ávila, María Eugenia, Riyad Insanally, Claudia Trevisan, and Bosco Marti, *US-China Vaccine Diplomacy: Lessons from Latin America and the Caribbean*, Atlantic Council, February 2022.
- Bush, George W., "Remarks to the United Nations Financing for Development Conference in Monterrey, Mexico," American Presidency Project, March 22, 2002.
- Carothers, Thomas, "Democracy Support and Development Aid: The Elusive Synthesis," *Journal of Democracy*, Vol. 21, No. 4, October 2010.
- Castillo, Rodrigo, and Caitlin Purdy, *China's Role in Supplying Critical Minerals for the Global Energy Transition: What Could the Future Hold?* Brookings Institution, July 2022.
- Chen, Yunnan, "Laying the Tracks: The Political Economy of Railway Development in Ethiopia's Railway Sector and Implications for Technology Transfer," Global Development Policy Center, Boston University, January 2021a.
- Chen, Yunnan, "Addis-Djibouti Railway," *The People's Map of Global China*, April 8, 2021b.
- "China Opposes 'Coercive Diplomacy' of US in Pushing MCC Compact in Nepal," *Global Times*, February 18, 2022.
- "China Resumes Rare Earth Exports to Japan," BBC News, November 24, 2010.
- ChinaPower, "How is China's Energy Footprint Changing?" Center for Strategic and International Studies, undated.
- ChinaPower, "Is China's Covid-19 Diplomacy Succeeding?" Center for Strategic and International Studies, September 7, 2021.
- "Chinese Loans and Investment in Infrastructure Have Been Huge," *The Economist*, May 20, 2022.
- Chivvis, Christopher S., and Ethan Kapstein, *U.S. Strategy and Economic Statecraft: Understanding the Tradeoffs*, Carnegie Endowment for International Peace, April 2022.

- Cichocka, Beata, Ian Mitchell, and Euan Ritchie, "Three Key Shifts on Development Cooperation in China's 2021 White Paper," *Center for Global Development* blog, February 9, 2021.
- Cordell, Kristen A., "Chinese Development Assistance: A New Approach or More of the Same?" Carnegie Endowment for International Peace, March 23, 2021.
- Corsetti, Gabriel, "How Many NGOs Are There Really in China?" China Development Brief, August 2, 2019.
- Costigliola, Frank, *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe, 1919–1933*, Cornell University Press, 1984.
- Custer, Samantha, Axel Dreher, Thai-Binh Elston, Andreas Fuchs, Siddharta Ghose, Joyce Jiahui Lin, Ammar A. Malik, Bradley C. Parks, Brooke Russell, Kyra Solomon, Austin Strange, Michael J. Tierney, Katherine Walsh, Lincoln Zaleski, and Sheng Zhang, *Tracking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology*, AidData at William & Mary, 2021.
- Custer, Samantha, Justin Schon, Ana Horigoshi, Divya Mathew, Bryan Burgess, Vera Choo, Amber Hutchinson, Austin Baehr, and Kelsey Marshall, *Corridors of Power: How Beijing Uses Economic, Social, and Network Ties to Exert Influence Along the Silk Road*, AidData at William & Mary, December 2021.
- Custer, Samantha, Tanya Sethi, Rodney Knight, Amber Hutchinson, Vera Choo, and Mengfan Cheng, *Listening to Leaders 2021: A Report Card for Development Partners in an Era of Contested Cooperation*, AidData at the College of William & Mary, June 2021.
- Demirel-Pegg, Tijen, and James Moskowitz, "US Aid Allocation: The Nexus of Human Rights, Democracy, and Development," *Journal of Peace Research*, Vol. 46, No. 2, March 2009.
- DFC—See U.S. International Development Finance Corporation.
- Douglas, Jason, "China's Lending Strategy in Emerging Markets Risks Prolonging Borrowers' Pain," *Wall Street Journal*, September 8, 2022.
- Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney, *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*, Cambridge University Press, 2022.
- Dube, Ryan, and Gabriele Steinhauser, "China's Global Mega-Projects Are Falling Apart," *Wall Street Journal*, January 20, 2023.
- Easterly, William, and Tobias Pfutze, "Where Does the Money Go? Best and Worst Practices in Foreign Aid," *Journal of Economic Perspectives*, Vol. 22, No. 2, Spring 2008.
- Esteban, Mario, and Iliana Olivie, "China and Western Aid Norms in the Belt and Road: Normative Clash or Convergence? A Case Study on Ethiopia," *Journal of Contemporary China*, Vol. 31, No. 134, 2022.
- Export-Import Bank of the United States, "Get Financing," webpage, undated. As of September 14, 2022: <https://www.exim.gov/solutions/get-financing>
- Export-Import Bank of the United States, "Authorizations from 10/01/2006 thru 3/31/2022," dataset, last updated August 18, 2022.
- "Faced with an Overseas Debt Crisis, Will China Change Its Ways?" *The Economist*, August 24, 2022.
- Fang, Hui, "Measuring China's Nonprofit Sector," The Asia Foundation, May 22, 2019.
- Ferchen, Matt, "How China Is Reshaping International Development," Carnegie Endowment for International Peace, January 8, 2020.
- ForeignAssistance.gov, database homepage, last updated July 29, 2022. As of August 18, 2022: <https://www.foreignassistance.gov>
- Garafola, Cristina L., Timothy R. Heath, Christian Curriden, Meagan L. Smith, Derek Grossman, Nathan Chandler, and Stephen Watts, *The People's Liberation Army's Search for Overseas Basing and Access: A Framework to Assess Potential Host Nations*, RAND Corporation, RR-A1496-2, 2022. As of May 16, 2023: https://www.rand.org/pubs/research_reports/RRA1496-2.html
- Gelpern, Anna, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments*, AidData at William & Mary, Center for Global Development, Kiel Institute for the World Economy, and Peterson Institute for International Economics, March 2021.
- Ghimire, Binod, "Why the MCC Compact Courtied Controversy in Nepal," *Kathmandu Post*, January 9, 2020.
- Gong, Xue, "China's Economic Statecraft: The Belt and Road in Southeast Asia and the Impact on the Indo-Pacific," *Security Challenges*, Vol. 16, No. 3, 2020.



"Greece Completes Transfer of 16% Stake in Piraeus Port to COSCO," Reuters, October 7, 2021.

Harchaoui, Tarek M., Robert K. J. Maseland, and Julian A. Watkinson, "Carving Out an Empire? How China Strategically Uses Aid to Facilitate Chinese Business Expansion in Africa," *Journal of African Economies*, Vol. 30, No. 2, March 2021.

Hasmath, Reza, "China's NGOs Go Global," *The Diplomat*, March 23, 2016.

Heath, Timothy R., "China's Evolving Approach to Economic Diplomacy," *Asia Policy*, No. 22, July 2016.

Heinrich, Tobias, "When Is Foreign Aid Selfish, When Is It Selfless?" *Journal of Politics*, Vol. 75, No. 2, April 9, 2013.

Hillman, Jonathan E., "Corruption Flows Along China's Belt and Road," Center for Strategic and International Studies, January 18, 2019.

Horn, Sebastian, Carmen M. Reinhardt, and Christoph Trebesch, "China's Overseas Lending," *Journal of International Economics*, Vol. 133, November 2021.

Igoe, Michael, and Adva Saldinger, "Biden Proposes \$6.8B Boost for US International Budget," Devex, April 9, 2021.

Ingram, George, and Sally Paxton, "Testimony Before the US Development Finance Corporation," public hearing, Publish What You Fund and Friends of Publish What You Fund, December 10, 2020.

Jacobs, Andrew, "Joyous Africans Take to the Rails, with China's Help," *New York Times*, February 7, 2017.

Jennings, Ralph, "China's COVID-19 Vaccine Diplomacy Reaches 100-Plus Countries," Voice of America, September 18, 2021.

Kharas, Homi, *Trends and Issues in Development Aid*, Brookings Institution, November 2007.

Kratz, Agatha, Daniel H. Rosen, and Matthew Mingey, *Booster or Brake? COVID and the Belt and Road Initiative*, Rhodium Group, April 15, 2020.

Kraybill, David, and Stephanie Mercier, *How the United States Benefits from Agricultural and Food Security Investments in Developing Countries*, International Food Policy Research Institute, 2019.

Kumar, Krishna B., Shelly Culbertson, Louay Constant, Shanthi Nataraj, Fatih Unlu, Kathryn E. Bouskill, Joy S. Moini, Katherine Costello, Gursel Rafig oglu Aliyev, and Fadia Afashe, *Opportunities for All: Mutually Beneficial Opportunities for Syrians and Host Countries in Middle Eastern Labor Markets*, RAND Corporation, RR-2653-QFFD, 2018. As of May 16, 2023:
https://www.rand.org/pubs/research_reports/RR2653.html

Kurtzer, Jacob, and Grace Gonzales, "China's Humanitarian Aid: Cooperation Amidst Competition," Center for Strategic and International Studies, November 17, 2020.

Kynge, James, Kathrin Hille, Benjamin Parkin, and Jonathan Wheatley, "China Reckons with Its First Overseas Debt Crisis," *Financial Times*, July 21, 2022.

Latham, Michael E., *The Right Kind of Revolution: Modernization, Development, and U.S. Foreign Policy from the Cold War to the Present*, Cornell University Press, 2011.

Lawson, Marian L., and Emily M. Morgenstern, *Foreign Aid: An Introduction to U.S. Programs and Policy*, Congressional Research Service, R40213, updated April 16, 2019.

Lew, Jacob J., Gary Roughead, Jennifer Hillman, and David Sacks, *China's Belt and Road: Implications for the United States*, Council on Foreign Relations, 2021.

Lorenzini, Sara, *Global Development: A Cold War History*, Princeton University Press, 2019.

Losos, Elizabeth C., and T. Robert Fetter, "Building Bridges? PGII Versus BRI," *Future Development* blog, Brookings Institution, September 29, 2022.

Lynch, Leah, Sharon Andersen, and Tianyu Zhu, *China's Foreign Aid: A Primer for Recipient Countries, Donors, and Aid Providers*, Center for Global Development, July 2020.

MacRae, Penny, "US Bid to Give US\$500 Million to Nepal Sparks Protests, War of Words Between Washington, Beijing," *South China Morning Post*, February 22, 2022.

Malik, Ammar A., Bradley Parks, Brooke Russell, Joyce Jiahui Lin, Katherine Walsh, Kyra Solomon, Sheng Zhang, Thai-Binh Elston, and Seth Goodman, *Banking on the Belt and Road: Insights from a New Global Dataset of 13,427 Chinese Development Projects*, AidData at William & Mary, September 2021.

- Mandon, Pierre, and Martha Tesfaye Woldemichael, "Has Chinese Aid Benefitted Recipient Countries? Evidence from a Meta-Regression Analysis," International Monetary Fund, February 2022.
- Mardell, Jacob, "Development Coordination: Foreign Aid with Chinese Characteristics," Mercator Institute for China Studies, August 7, 2018.
- Masho, Aaron, "Ethiopia PM Says China Will Restructure Railway Loan," Reuters, September 6, 2018.
- McBride, James, "How Does the U.S. Spend Its Foreign Aid?" Council on Foreign Relations, October 1, 2018.
- Miles, Renanah, "The State Department, USAID, and the Flawed Mandate for Stabilization and Reconstruction," *Prism*, Vol. 3, No. 1, December 2011.
- Mingey, Matthew, and Agatha Kratz, "China's Belt and Road: Down but Not Out," Rhodium Group, January 4, 2021.
- Ministry of Foreign Affairs of the People's Republic of China, "The Global Security Initiative Concept Paper," February 21, 2023.
- Miriri, Duncan, "African Nations Mend and Make Do as China Tightens Belt and Road," Reuters, November 22, 2021.
- Morris, Scott, Brad Parks, and Alysha Gardner, "Chinese and World Bank Lending Terms: A Systematic Comparison Across 157 Countries and 15 Years," Center for Global Development, April 2020.
- Mueller, Joris, "China's Foreign Aid: Political Determinants and Economic Effects," working paper, 2022. As of August 1, 2022:
https://www.jorismueller.com/files/chinaaid_latest_draft.pdf
- Mulakala, Anthea, and Ji Hongbo, "Insights on China's 2021 White Paper on International Development Cooperation," The Asia Foundation, February 17, 2021.
- Murphy, Melissa, "Issue in Focus: China's 'Going Out' Investment Policy," Center for Strategic and International Studies, May 27, 2008.
- Obama, Barack, "Remarks at the Millennium Development Goals Summit in New York City," September 22, 2010.
- OECD—See Organization for Economic Cooperation and Development.
- Organization for Economic Cooperation and Development, "Aid (ODA) Tying Status (DAC7b)," database, undated-a. As of July 6, 2022:
<https://stats.oecd.org/Index.aspx?DataSetCode=TABLE7B>
- Organization for Economic Cooperation and Development, "DAC Glossary of Key Terms and Concepts," webpage, undated-b. As of May 15, 2023:
<https://www.oecd.org/dac/dac-glossary.htm>
- Organization for Economic Cooperation and Development, "DAC List of ODA Recipients: Effective for Reporting on 2014, 2015, 2016, and 2017 Flows," undated-c. As of May 19, 2023:
https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2014to2017_flows_En.pdf
- Organization for Economic Cooperation and Development, "FDI Flows," database, undated-d. As of May 15, 2023:
<https://data.oecd.org/fdi/fdi-flows.htm>
- Organization for Economic Cooperation and Development, "Grants by Private Agencies and NGOs," database, undated-e. As of September 2022:
<https://data.oecd.org/drif/grants-by-private-agencies-and-ngos.htm>
- Organization for Economic Cooperation and Development, "Official Development Assistance (ODA)," webpage, undated-f. As of May 15, 2023:
<https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm>
- Organization for Economic Cooperation and Development, *Paris Declaration on Aid Effectiveness*, 2005.
- Organization for Economic Cooperation and Development, *OECD Investment Policy Reviews: China 2008*, 2008.
- Pandey, Lekhanath, "US Grant to Nepal Puts Spotlight on China Rivalry," Deutsche Welle, February 23, 2022.
- Permanent Mission of the People's Republic of China to the UN, "China's Stand on South-South Cooperation," August 18, 2003.



Pompeo, Michael R., "Landmark Development Finance Legislation Improves America's Competitiveness Overseas," press statement, U.S. Department of State, October 3, 2018.

Pornet, Alisée, "Every Step Makes a Footprint: China's Aid and Development as Incremental Policies," in Nadège Rolland, ed., *An Emerging China-Centric Order: China's Vision for a New World Order in Practice*, The National Bureau of Asian Research, 2020.

Radelet, Steve, "Once More into the Breach: Does Foreign Aid Work?" Brookings Institution, May 8, 2017.

Richardson, Jim, "To Win Friends and Influence People, America Should Learn from the CCP," *Foreign Policy*, July 22, 2021.

Rohter, Larry, "China Widens Economic Role in Latin America," *New York Times*, November 20, 2004.

Rolland, Nadège, "A Concise Guide to the Belt and Road Initiative," National Bureau of Asian Research, April 11, 2019.

Rosenberg, Elizabeth, Peter Harell, Paul J. Dobriansky, and Adam Szubin, *America's Use of Coercive Economic Statecraft: A Report from Select Members of the CNAS Task Force on the Future of U.S. Coercive Economic Statecraft*, Center for a New American Security, December 2020.

Rudyak, Marina, "The Ins and Outs of China's International Development Agency," Carnegie Endowment for International Peace, September 2, 2019.

Rudyak, Marina, "The Past in the Present of Chinese International Development Cooperation," *Made in China Journal*, Vol. 6, No. 2, May–August 2021.

Rumelt, Richard P., *Good Strategy, Bad Strategy: The Difference and Why It Matters*, Crown Business, 2011.

Runde, Daniel F., "A New Approach to Foreign Aid," Center for Strategic and International Studies, December 17, 2020.

Russel, Daniel R., and Blake H. Berger, *Weaponizing the Belt and Road Initiative*, Asia Society Policy Institute, September 2020.

Savage, Rachel, Martin Pollard, and Yew Lun Tian, "China Debt Restructuring Policy Under Scrutiny as More Countries Demand Relief," Reuters, September 8, 2022.

Savoy, Conor M., and Shannon McKeown, "Future Considerations for the Partnership on Global Infrastructure and Investment," Center for Strategic and International Studies, June 29, 2022.

Schmitz, Rob, "How a Chinese-Built Highway Drove Montenegro Deep into Debt," NPR, June 29, 2021.

Scobell, Andrew, Bonny Lin, Howard J. Shatz, Michael Johnson, Larry Hanauer, Michael S. Chase, Astrid Stuth Cevallos, Ivan W. Rasmussen, Arthur Chan, Aaron Strong, Eric Warner, and Logan Ma, *At the Dawn of Belt and Road: China in the Developing World*, RAND Corporation, RR-2273-A, 2018. As of May 15, 2023: https://www.rand.org/pubs/research_reports/RR2273.html

Searcey, Dionne, Michael Forsythe, and Eric Lipton, "A Power Struggle over Cobalt Rattles the Clean Energy Revolution," *New York Times*, December 7, 2021.

Shah, Saaed, "China's Belt-and-Road Initiative Puts a Squeeze on Pakistan," *Wall Street Journal*, April 3, 2019.

Sharma, Gopal, "Why Is a US Infrastructure Grant Behind Protests in Nepal?" Reuters, February 24, 2022

Sheehy, Thomas P., and Joseph Asunka, "Countering China on the Continent: A Look at African Views," United States Institute of Peace, June 23, 2021.

Spevacek, Anne Marie, *Net Assessment: Overview and Resources*, U.S. Agency for International Development, June 28, 2017.

The State Council Information Office of the People's Republic of China, *China's International Development Cooperation in the New Era*, January 2021.

Stravers, Andrew, and Dana El Kurd, "Strategic Autocracy: American Military Forces and Regime Type," *Journal of Global Security Studies*, Vol. 5, No. 3, July 2020.

Sun, Yun, "China's Aid to Africa: Monster or Messiah?" Brookings Institution, February 7, 2014.

Thompson, Dean, "Opening Statement for Dean Thompson: Nominee to be U.S. Ambassador to Nepal," Senate Foreign Relations Committee, July 13, 2022.

Todd, Tony, "Chinese-Built Railway Opens Linking Ethiopia to Djibouti," *France24*, May 10, 2016.

Tomovic, Predrag, and Reid Standish, "Montenegro's \$1 Billion Highway Faces Uncertain Future After Years of Delays," Radio Free Europe/Radio Liberty, May 21, 2022.

U.S. Agency for International Development, "USAID History," webpage, undated. As of November 2, 2021: <https://www.usaid.gov/about-us/usaaid-history>

USAID—See U.S. Agency for International Development.

U.S. Bureau of Economic Analysis, "U.S. Direct Investment Abroad: Financial Transactions Without Current-Cost Adjustment by Detailed Country, 2009–2019," spreadsheet, undated.

U.S.-China Economic and Security Review Commission, Hearing on China in Latin America and the Caribbean, May 20, 2021.

U.S. International Development Finance Corporation, "Information Summary for the Public: Puerta de Hierro Toll Road," August 2019. As of September 22, 2022: <https://www.dfc.gov/sites/default/files/2019-08/9000072981.pdf>

U.S. International Development Finance Corporation, "DFC Transaction Data," spreadsheet, last updated December 31, 2021.

Varvitsioti, Eleni, "Piraeus Port Deal Intensifies Greece's Unease over China Links," *Financial Times*, October 19, 2021.

Wang, Ying, "Going Global: The International Endeavors of Chinese NGOs," The People's Map of Global China, June 1, 2021.

Watanbe, Shin, and Ryosuke Hanada, "China Slows Foreign Lending as Belt and Road Problem Loans Triple," *Nikkei Asia*, September 20, 2022.

Weaver, Catherine, "The Rise of China: Continuity or Change in the Global Governance of Development?" *Ethics and International Affairs*, Vol. 29, No. 4, Winter 2015.

Wei, Lingling, "China Reins In Its Belt and Road Program, \$1 Trillion Later," *Wall Street Journal*, September 26, 2022.

Weiss, Jessica Chen, "The China Trap: U.S. Foreign Policy and the Perilous Logic of Zero-Sum Competition," *Foreign Affairs*, September/October 2022.

Wheatley, Jonathan, and James Kynge, "China Curtails Overseas Lending in Face of Geopolitical Backlash," *Financial Times*, December 7, 2020.

The White House, "Remarks by the President on Sustainable Development Goals," press release, September 27, 2015.

The White House, "Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," June 12, 2021.

The White House, "Fact Sheet: President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment," June 26, 2022a.

The White House, *National Security Strategy*, October 2022b.

The World Bank, "Grant Element Calculations," webpage, undated. As of February 24, 2023: <https://ida.worldbank.org/en/financing/debt/grant-element-calculations>

Wolf, Charles, Jr., Xiao Wang, and Eric Warner, *China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications*, RAND Corporation, RR-118, 2013. As of May 10, 2023: https://www.rand.org/pubs/research_reports/RR118.html

Xie, John, "Studies Reveal China's Dominant Position in High-Tech Minerals," Voice of America, May 30, 2021.

Yuan, Jingdong, Fei Su, and Xuwan Ouyang, *China's Evolving Approach to Foreign Aid*, Stockholm International Peace Research Institute, May 2022.

Zou, Longcan, Jim Huangnan Shen, Jun Zhang, and Chien-Chiang Lee, "What Is the Rationale Behind China's Infrastructure Investment Under the Belt and Road Initiative," *Journal of Economic Surveys*, Vol. 36, No. 3, July 2022.

OVER THE PAST DECADE, China has upended the world of development assistance, rapidly becoming the world's largest bilateral lender by channeling large sums of money into the developing world. As China's economic engagement in the developing world has grown, so too have U.S. and allied concerns that China is leveraging development assistance to assert Chinese influence, weaken the United States' relative position, and achieve Beijing's broader national security interests.

In this report, the authors conduct a net assessment of U.S. and Chinese development assistance and cooperation. The authors describe each country's differing approaches to economic engagement with developing countries and conduct a data-driven comparison to identify strategic asymmetries that might present opportunities for the United States to better compete with China for relationships and influence in the developing world.

The assessment reveals that Chinese economic engagement in the developing world should not be conceptualized as aid or assistance; this mischaracterization has potentially led to an overreliance on U.S. development tools as a primary response. Moreover, despite evidence of the short-term benefits that China might gain from its development financing, it is not clear whether these benefits are sustainable or effective over the long term when compared with the U.S. approach.

Nevertheless, China's efforts—its heavy emphasis on energy and infrastructure projects, its approach to working through elite actors in developing countries, and its willing embrace of greater risk and reduced transparency—create challenges and opportunities for the United States as it looks to compete with China in the developing world.

