A Tale of Two Paths: Divergence in Development

Daniel F. Runde

Introduction

Today’s developing world is fundamentally different than that of your grandparents. It is even different than when Presidents Bill Clinton and George W. Bush were in office. U.S. policy and strategy should keep pace with these changes. Today, there are two divergent paths for developing countries: dozens are richer, freer, healthier, and more self-sufficient, while dozens still struggle mightily. Those doing well need drastically less foreign assistance and instead crave trade, infrastructure, and a diversified economy. There are, however, 30 to 40 failed and failing states that are not advancing and are generating many of our biggest national security threats. Every White House National Security Strategy since 2002 specifically cites failed, fragile, or failing states as a critical global security challenge. There remains a major role for U.S. foreign assistance, but it must be applied to different challenges and opportunities to reflect a changed world.

Without a new approach to assistance that combines diplomacy and security, this group of struggling countries will remain a source of development challenges for decades. To reflect the changed environment, the Trump administration must embrace new assumptions, new approaches, and emphasize other instruments. Unfortunately, current assistance resource allocations are still designed to fight past development challenges instead of what lies ahead. To be clear, the United States spends resources in the developing world because, among other things, doing so is in the enlightened U.S. interest: it makes the country safer from terrorism, strengthens allies, and creates markets for our goods. For example, 11 of 15 of our largest trading partners are former recipients of U.S. foreign assistance.

In order to focus on what lies ahead, U.S. development policy must recognize the largely positive changes—and the few negative ones—that have occurred over the past several decades, including:

- Global poverty has declined dramatically; in the past 30 years, 1.85 billion people were lifted out of poverty. From 1990 to 2013, the number of people globally who live on less than $1.90 a day dropped from 35 percent to 10.7 percent. This radical reduction comes primarily from East Asia and the Pacific and South Asia, where there were over 100 million fewer people living in extreme poverty just from 2012 to 2013.
• By 2030, the global middle class will be almost two-times as large as the bottom class. This is being driven by the economies of China and India and a new consumption class in developing countries. This is also happening in sub-Saharan Africa, where car ownership—a key indicator of middle-class status—has increased by 81 percent in Ghana since 2006 for example.

• The world has made significant progress in global health. Infant mortality dropped from 53.1 per 1,000 births in 2000 to 31.7 per 1,000 in 2015. Global life expectancy is 71.4 years, an increase of five years from 2000 to 2015 and the fastest increase since the 1960s. This progress is specifically attributable to success in fighting AIDS/HIV in Africa, polio, tuberculosis, and malaria, all of which have dropped since 2000.

• In 2000, there were 250 million mobile phone subscriptions in developing countries. By 2011, there were 4.5 billion subscriptions. Over the same time, mobile phone subscribers grew from 500 million to 1.5 billion. In 2015, 3.7 billion unique subscribers had a total of 7.5 billion mobile phone subscriptions. Mobile technology has filled the absence of traditional financial institutions in the developing world through mobile banking. Many people do not have access to traditional banks or credit institutions but can access funds through mobile technology.

• Developing countries now have access to more of their own revenue to finance their own development. “Domestic resource mobilization” (i.e., taxes, savings, and capital market activity) is one of the fastest growing sources of development finance, allowing the foreign assistance share of a country’s budget to shrink. In sub-Saharan Africa, for example, all taxes collected in 2000 amounted to $100 billion, while all foreign assistance was $20 billion, a ratio of five-to-one. By 2013, all taxes were almost $500 billion, while all foreign assistance was $54 billion, a ratio of ten-to-one.

• Social safety nets increasingly protect people exposed to negative conditions of underdevelopment like poor health care, education, poverty, and a greater susceptibility to disaster. Every country has at least one social safety net as of 2015, with developing countries having an average of 20 programs. Developing countries have spent a total of $329 billion on social safety nets. 1.9 billion people in the developing world have benefitted from government-funded social coverage, but in 2015, 773 million—55 percent—of the most impoverished people in the world still lacked adequate safety net coverage.

• In 2015, more people lived in cities than in rural areas for the first time ever. The global urban population stood at 3.7 billion people and is expected to double by 2050. Over 90 percent of urban growth occurs in the developing world, where almost 70 million new people move to urban areas annually. By 2030, every developing country will have more urban than rural residents. These areas are key to the global economy, with cities contributing more than 80 percent of total world gross domestic product (GDP). Geographically, by 2030, total urban land area will increase by 185 percent its current size.
The Prosperous Middle

These positive trends have created dozens of countries that are following the path of Chile, Costa Rica, Estonia, Poland, South Korea, and Taiwan from the late twentieth century. Some are solidly middle-income countries like Indonesia, Morocco, and the Philippines. Others are lower-income countries such as Bangladesh, Ghana, Ethiopia, Rwanda, and Kenya. But all generally share similar attributes: improved human development indicators, better governance, and economic growth that have together translated into higher per capita incomes. For them, foreign assistance is no longer central to their success. As they move up the income curve, the needs of these countries turn to broader government capacity, better infrastructure, a focus on noncommunicable health challenges, and economic diversification. These countries are increasingly interested in technology transfer, science partnerships, and access to world-class innovation.

The Failing Bottom

At the same time, there are too many failed, failing, and vulnerable states. Many of the threats to the United States’ national security come from these countries, including drugs, trafficking in persons, criminal gangs, pandemics, and terrorist groups. These countries struggle with high unemployment, unpredictable public service delivery, and dangerous security challenges. Many have not experienced the improvements that other developing countries have seen in the past 20 years. Life expectancy remains low, either because of ongoing conflict or a lack of access to basic health services and low economic growth. Unlike other countries discussed above, those in the failing bottom remain reliant on foreign aid to help them provide their citizens with access to basic human needs. These countries require a different set of instruments and approaches that require closer partnerships between development and security domains.

Most of the countries in the failing bottom have struggled with fragility for years, but there are several who have recently slid back down after having initially moved up the development ladder. This movement is largely the result of unresolved political conflicts that have either sparked violence (e.g., Syria) or increased instability that has led to economic breakdown (e.g., Venezuela). Some negative trends that the United States must confront include mass population movement, ungoverned territory, and global pandemic:

- The most visible of these challenges is the ongoing global refugee crisis. There are now more refugees and migrants in the world (around 70 million) than at any time since the end of World War II, many of whom come from failed or failing states. In some instances, like Syria, the refugees are fleeing active war zones; others are migrants who see few prospects in their home countries, where governance and rule of law is weak and economic growth is stalled. Beyond the daily headlines, two main challenges dominate: the immediate humanitarian crisis created by mass migrations and confronting their “root causes.”

- Many of these fragile and failing states now have vast ungoverned spaces that provide ample room for armed groups (criminal gangs and terrorist groups) to thrive and ultimately threaten the international order. These groups are further abetted by access to technology that allows them to organize, finance their operations, and arm themselves.
Global pandemics spread more rapidly and are more deadly if they appear in fragile or failing states. A combination of rapid urbanization and weak health systems in Liberia, Guinea, and Sierra Leone meant that the 2014 Ebola outbreak spread more rapidly in urban environments than had been the case previously.

New Approaches

In addition to these challenges in divergent country trajectories, we confront a changed resource landscape. Bilateral and multilateral donors continue to operate as if they are the “largest wallet in the room,” as if foreign assistance is the central solution to poverty. In 1961, foreign aid was indeed a primary focus; for example, 70 percent of U.S. economic engagement in the developing world was foreign assistance. Today foreign assistance is around 9 percent of U.S. economic engagement. This is not to suggest that foreign aid does not have a role; it does, and it is an important one. But that role is changing and must better reflect the changed world. Aid must evolve into playing a catalytic role, mobilizing new resources from the private sector and helping local governments improve their ability to generate their own resources.

<table>
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<tr>
<th>Financing for Development (in U.S.$billions)</th>
<th>2002</th>
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<td>Source</td>
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<tr>
<td>Public Domestic Revenues</td>
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One important insight is that international assistance should not equal “development.” Development in its truest sense is domestically driven economic and social progress encompassing inclusive growth, political freedom, improvements in health, literacy, education, and other quality-of-life measures. Today’s foreign assistance, on the other hand, de facto describes emergency humanitarian relief in the face of short-term crises. Longer-term U.S. foreign assistance often takes many years to address systemic problems, a timeline that is often unacceptable to fluctuating appetites in Congress. This inconsistent funding has produced inconsistent results and extended project timelines in search of measurable results. Extended project timelines can create a system of dependence on foreign assistance. However, when mixed with good governance and a functioning private sector, assistance can help a country stabilize.

Today foreign assistance is not the only—nor is it the largest—force in development:

- Domestic resource mobilization (DRM)—including taxes, savings, and capital markets activity—is the first force. DRM in sub-Saharan Africa, for example, grew from $100 billion in 2000 to around $500 billion in 2013. This means that most middle-income countries and some lower-income countries are increasingly able to finance and manage the delivery of their basic human needs independent of foreign assistance.
• Foreign direct investment (FDI) is the second force, increasing dramatically from $250 billion in 2000 to $578 billion in 2015 in developing countries. Since 2012, developing countries have attracted more FDI per year than developed countries.

• Remittances are a third force and have grown to become a key financial resource for developing countries. From 2000 to 2014, the amount of global remittances grew from $73 billion to $431 billion. In the United States, remittance transfers grew from $31 billion in 2001 to $56 billion in 2014, over 1.5 times U.S. foreign assistance.

• China on its own is a fourth force. Over the past 15 years China has built strong economic and development ties with countries in sub-Saharan Africa, Latin America, and Southeast Asia. Through its engagement, China has provided many of these countries with access to the financing they need to rebuild or improve existing infrastructure. China is now the top trading partner for 124 countries, while only 76 consider the United States to be their top trade partner. This is almost a complete role reversal from 2006 when China and the United States were considered the top trading partner for 70 and 127 countries, respectively. China has launched its own multilateral lending institutions—the New Development Bank (the so-called BRICS Bank) and the Asian Infrastructure Investment Bank—in addition to its bilateral engagements. In 2000, 5 countries considered China as their top export market while 53 saw the United States this way. By 2014, 43 counted China as their main export partner compared to 31 for the United States.

Policies for the New Development Landscape

The United States must change because the world has changed. If the United States fails to adjust its approach to foreign assistance, it will miss out on opportunities to solve problems, strengthen allies, gain new allies, promote peace and stability, and create new markets for U.S. goods. Understanding the bifurcation of the developing world and tailoring American soft power to both the prosperous middle and failing bottom among developing countries is important for the United States to maximize its influence, facilitate stability, create opportunities, and manage risks.

The U.S. government remains the world’s largest provider of bilateral assistance in real terms, providing approximately $34 billion annually. Public and private aid resources pale in comparison to the trillions of dollars in resources from global and local capital markets, international trade flows, taxes collected, foreign domestic investment (including but not limited to that coming from China), and remittances. The U.S. government will need to leverage and/or work with all these resources to meet the global development challenges of tomorrow.

Building a New Relationship

The United States will need to rethink how it engages in developing countries. Rather than large-scale, multiyear aid projects designed to deliver basic human needs, the relationship must evolve to focus on trade, investment, and economic engagement. Central roles for bilateral and multilateral aid agencies will be those of convener, risk taker, catalyst, and “beta-tester” of innovation.
In practice this will mean a greater focus on:

- Building greater government capacity to deliver services independently with a particular emphasis on domestic resource mobilization and public financial management to ensure countries can pay for their continued development;

- Investment to support construction of physical infrastructure to unlock higher rates of economic growth;

- Support for vocational and technical training in support of workforce development to match skills with modernizing economies and changing labor markets; and

- Trade capacity-building efforts will need to be increased in order to integrate these countries into the broader global economy and to break down regional trade barriers to help create economies of scale.

Organizing to Tackle Fragility

For countries stuck in inescapable fragility, often defined by war, hunger, resource curses, corruption, and poverty, the challenge for donors is primarily an organizational one. Many of these countries will continue to rely upon foreign assistance to provide basic human needs for the foreseeable future, but the United States must think about whether it is organized properly to maximize the impact of this support.

Key considerations include:

- Over the past ten years, the U.S. Agency for International Development (USAID) and the U.S. State Department have created a number of entities geared toward working in fragile and conflict afflicted states. Is this the proper—and most efficient—organizational structure to meet tomorrow’s challenges?

- An expeditionary assistance workforce and career track should be created. These individuals will be ready to work in failed and failing states for their entire careers and should be promoted at an accelerated rate given the increased risks they would take. Such a new expeditionary workforce would be prepared to live in very difficult places, equipped with military- and survival-style training similar to that offered by the U.S. Army Ranger School. This workforce would not be armed but would be familiar with military skill sets and discipline. Overseas development assignments would be encouraged to last seven to ten years with individual responsibility for the success or failure of a program.

- A major barrier to stability in many fragile states is the lack of jobs and economic opportunity; local private sectors are often small and informal. The U.S. government should prioritize economic growth and local private-sector development in these failing bottom states.

- The United States must be prepared to make long-term commitments to countries in the failing bottom, especially those that are of geostrategic importance. An important lesson of
U.S. development efforts in Afghanistan is that foreign assistance programs do not produce overnight success. Results are measured in decades, and an upfront commitment must be made to see these efforts through to completion.

About the Author

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