

# the JOHN HAY INITIATIVE

# **CHOOSING TO LEAD**

American Foreign Policy for a Disordered World

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# JOHN HAY INITIATIVE — \* —

### CHOOSING TO LEAD: AMERICAN FOREIGN POLICY FOR A DISORDERED WORLD

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#### **Foreword**

#### Peter Wehner

About a quarter of a century ago the Berlin Wall fell and the Soviet Union collapsed. It was an epic moment that evoked understandable elation, and in some quarters highly optimistic analysis. The political scientist Francis Fukuyama wrote in an influential 1989 essay, "The End of History?", that the world had perhaps reached "the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."

Twenty-five years later, it is clear history is not over, even in the Hegelian sense, and liberal democracy has not been universalized. Euphoria has given way to anxiety. The world, if not necessarily more dangerous than it was during the Cold War, is surely more chaotic and diffusely complex. The scale of global disorder is staggering. In the Middle East alone we behold the continuing threat from al-Qaeda and the rise of the Islamic State; the dissolution of states such as Syria, Iraq, Libya, and Yemen; the regional rise of Iran as a nuclear-threshold state and, with it, the specter of multiple nuclear proliferation far and wide. Nor is the rest of the world any calmer with Russian aggression in Ukraine and Chinese expansionism in the maritime domains of East Asia. Cyber threats have mushroomed and grown global in scale, and thanks to the current U.S. Administration policies, the alliance system designed to preserve order and peace has been weakened.

As one might expect, foreign policy is rising on the list of priorities and concerns for the American people. A Pew Research Center poll from earlier this year shows that for the first time in five years, as many Americans cite defending the United States against terrorism (76 percent) as a top policy priority as say that about strengthening the nation's economy (75 percent). An internal Republican survey in March found that security issues ranked first on a list of top priorities for voters, ahead of economic growth, fiscal responsibility, and moral issues, among others. Foreign policy will almost certainly be an important and perhaps even a dominant issue in the 2016 presidential race.

Those running for high public office are likely to find the American people somewhat disoriented, feeling vulnerable, anxious and unusually powerless in the face of global affairs. There can be little wonder why. The United States has waged war for nearly fifteen years and undertaken "nation-building" operations that turned out to be more difficult and costly than we imagined. If previous administrations overestimated America's capacity to shape events, the current Administration has made the United States a reluctant and often passive world power, and the world is more turbulent and dangerous because of it.

We are caught in a moment of confusion, then, that begs for clarity. This is where *Choosing to Lead*: *American Foreign Policy for a Disordered World* comes in. Consisting of 27 chapters drafted by members of the John Hay Initiative, *Choosing to Lead* seeks to diagnose the problem and suggest remedies going forward. It articulates both a conceptual approach—the principles and ideals that ought to inform American foreign policy—and concrete and comprehensive policies flowing therefrom. It covers the world, with chapters addressing challenges and opportunities from Latin America, Europe, and Asia to the Middle East and Africa. It

includes chapters on defense modernization and readiness, trade and economics, intelligence and energy security, democracy and human rights, cyber security and the United Nations, foreign assistance and structuring the National Security Council. The tone of the chapters is analytical, not polemical; we are interested more in solutions than in recriminations or scoring debating points.

Most of the contributors writing here have served in government, so we bring not just a theoretical understanding of the issues but real-world experience. Informing these chapters is an appreciation of the sheer complexity of the current strategic environment and the knowledge that adjustments and recalibrations need to be made all along the way.

Choosing to Lead points the way forward for the next President, regardless of party. Just as many of our foreign policy challenges transcend party politics, so do their solutions. For a period of time from 1942 onwards, American leaders of both parties came to a consensus about how our country should conduct itself internationally. That consensus has frayed badly, but it can be rewoven into a common fabric of organizing principles and commitments.

This book is designed as a practical policy manual, one intended to address real concerns. But the larger ambition of this book is to help Americans regain their footing and confidence in American leadership in world affairs. It aims to provide the American public, lawmakers, and even prospective Presidents with insights into how to think about foreign policy in an age of upheaval.

No party has a monopoly on wisdom. Members of both major parties have plenty of lessons to learn from the past fifteen years, from the difficult and protracted nature of war and nation-building to the chaos and upheavals that have followed in the wake of American weakness and retreat.

In an unusually polarized time the contributors to this book believe it is important that we restore the bipartisan tradition of American leadership in world affairs. We urge the careful balancing of American ideals and interests, prize strength and prudence, and stress the need for a measured application of a principled vision of foreign policy to shifting circumstances. A successful foreign policy requires three things: A proper conceptual understanding; the right policies; and individuals with the ability, wisdom, and discernment to successfully implement them. The next President will need all three.

Change is a constant in world affairs, of course, but the present period is unusually tumultuous. Tectonic plates have been quietly shifting and we are now witness to some of the noisy effects. Maps are being redrawn; the very units of the post-Westphalia order are under unprecedented stress; jihadi statelets are rising from the rubble of failed and collapsing states seemingly out of the ether. If in the face of all this the United States withdraws within itself, whether out of frustration, weariness, or a sense of impotence, the world's problems will only worsen, the disorder accelerate, and malignant regimes and organizations will gain strength and influence.

We are, nonetheless, sanguine about the future, both because we reject historical determinism and because we know the United States has a unique place and role to play among nations. Every author in this book accepts that there are limitations on American power. But we understand, too, that with the right

leadership and policies in place, the United States can once again be a guarantor of global order and peace, a champion of human rights, and a beacon of economic growth and human flourishing. There is no reason the 21st century cannot be the next American Century. We have our problems, but our economic, social, and cultural assets far outpace those of every imaginable competitor. Choosing to Lead offers perspectives and recommendations on how to make that next American Century happen. In doing so, we believe it will serve the world as well as the United States of America.

#### **DROP CAP**

A few final words about the plan of the book. It is divided into six sections and opens with a compelling and visionary chapter on rebuilding American foreign policy. It then turns to a subject too often neglected in recent years, America's alliances; after discussing national defense and international economic concerns it examines threats to American national security by region; it then explores a number of global challenges and opportunities. The book concludes with the question of organizing the central government, and above all the White House, for the effective conduct of foreign and defense policy.

September 2, 2015

## Chapter 7.7 **Development Assistance**

Dan Runde

The coming years will produce a series of challenges and opportunities that will require U.S. leadership to use international assistance as a foreign policy tool. This has been so since foreign assistance programs began more than fifty years ago, but the future will be different in many ways. First, we will likely confront many more failed and failing states that enable terrorist groups like ISIS or compound the management of global pandemics. Second, international assistance will need to be folded into an integrated strategy of dealing with a rising China, a very different proposition from the Cold War problem posed by the Soviet Union. The Soviet economic model and record was not particularly attractive to states that understood the role of markets in development; the Chinese model and record is. But the West can offer a far more attractive partnership to developing nations, including access to our innovation, technology, our higher education system, our growth-driving entrepreneurship, and the empowerment of people.

Looking to the near future, dozens of developing countries are projected to make breathtaking economic and related social progress, and it is in our clear interest to help them. There are growing demands for governments that are accountable to their people as an increasingly urbanized global middle class develops consumer tastes and both political preferences and expectations similar to those in the West. U.S. international assistance programs can help ensure that these rising societies participate in the rule-based system set up by the United States after World War II, the system that has enabled the greatest prosperity and human freedom humanity has ever known.

These and other changes in the environment are rendering the old model for managing and funding assistance obsolete. For the U.S. government to remain relevant, it must make hard choices on how we allocate limited resources, reorganize our institutions to fit the challenges, and simplify how we deliver our assistance. But in this we have one huge advantage: Nations that have pursued growth and freedom together tend to be dramatically richer, freer, and healthier. They therefore have greater capacity to solve their own problems than was the case thirty years ago. The aid endeavor in the past often looked like Sisyphus struggling with the rock; in many cases that metaphor, thankfully, does not apply going forward.

International assistance does not equal "development." The word development denotes domestically driven economic and social progress encompassing economic growth, political freedom, improvements in health, literacy, education, and other quality-of-life measures. Each society is responsible for its own development, more or less by definition. Development assistance, on the other hand, describes a facet of American foreign policy and that of other wealthier countries. But it is not the only related facet of U.S. policy. Some U.S. government assistance provides emergency humanitarian relief in the face of short-term crises, most often of natural origins (floods, earthquakes, and the like). The U.S. government and associated institutions like the International Red Cross are well regarded and

admired for their capabilities as a humanitarian aid provider. Longer-term "development assistance" often takes many years to affect systemic problems, if it can do so at all. It overlaps with the U.S. capacity to undertake humanitarian crisis triage, but it has different methods and aims. For reasons already noted, the next Administration's opportunity for policy innovation will fall mainly in this latter domain.

The U.S. government remains the world's largest provider of bilateral assistance, often called Official Development Aid (ODA)—around \$26.5 billion annually out of a global total of about \$150 billion. Aid from private American groups adds significantly to that total. But aid resources, public and private, are tiny in the context of trillions of dollars in resources from global and local capital markets, global trade flows, taxes collected by poor countries, foreign direct investment, and remittances. To meet global development challenges, the U.S. government will need to leverage all these resources. The United States and other wealthy societies play a small but critical role in organizing these resources through their ability to share expertise via international knowledge networks. The member states of the OECD can not only provide financial resources to poorer countries, but can also fund solutions to broader governance challenges that others will not or cannot confront on their own.

Beginning with the Marshall Plan, international assistance has been a significant form of American power. While not every initiative succeeded, 19 of the 20 largest U.S. trading partners are current or former recipients of U.S. development assistance, including Germany, South Korea, Taiwan and Japan. As was the case in these countries, economic growth is the best remedy for ending poverty and underdevelopment. As we have witnessed, especially since the end of the Cold War, trade, sound macroeconomic and fiscal policies, good governance in general, and advancing institutional maturity are all more important factors in conquering poverty than ODA. Nevertheless, U.S. international assistance, delivered both bilaterally and through multilateral institutions, are central forms of American soft power. Our international assistance should buttress and support other critical foreign policy and national security objectives.

#### **DROP CAP**

We need to be decisive and nimble to be effective in a rapidly changing world. Twelve relevant global trends should influence how and where we put our limited development resources. If we do not understand the environment within which policy must function, we will not be able to either do good for others or do well for ourselves.

The key trend, first, is that global economic growth over recent decades has resulted in a number of countries transitioning to middle income status. As these countries become wealthier, freer politically, and more capable of managing their own affairs, the U.S. government should be ready to shift from an engagement based on assistance to one based on a broader partnership.

Second, for the first time in history more than half the world's population resides in cities. The world's urban population now stands at 3.9 billion and is expected to nearly double by 2050. The trend toward urbanization is particularly

strong in the developing world; some 96 percent of all additional urbanization by 2030 will occur there. If cities are equipped with the right leaders, strategies, and infrastructures then cities can be powerful engines of growth. That is because population density has been historically the best indicator of the pace of economic transactions. But if cities have dysfunctional or corrupt governments, they can be breeding grounds for violence, disease, and state decay.

Third, the global middle class includes approximately two billion people, and will more than double to nearly five billion by 2030. As people get richer, they demand higher quality food and better functioning governments.

Fourth, the global youth bulge will be a major threat or a major source of talent. Providing youth with the skills and tools necessary for inclusion in the global economy is both an economic and security necessity.

Fifth, there will likely be an increased frequency of global pandemics. Air travel, urbanization, and diets with increased protein (meat and dairy) also raise the risk of more widespread "zoonotic" diseases (from animals to people).

Sixth, as countries continue to develop around the world, and populations continue to grow, energy demand will also continue to rise. World energy consumption has nearly doubled since 1973. The International Energy Association estimates that investments totaling \$16.4 trillion are required for the power sector by 2035 to meet global demand.

Seventh, communications is being revolutionized in developing countries, and it is bound to have a major impact on economic life. In 2014, 1.8 billion people used mobile devices in the developing world; there will be 2.9 billion in 2020. Africa alone is expected to reach one billion mobile phone users, with most accessing mobile banking and other services.

Eighth, increased access to primary and secondary education is growing around the world, but there is a mismatch between formal education and workplace demands. Workforce development should be the priority.

Ninth, investments of the order of \$57 trillion in global infrastructure are required over the next fifteen years. The majority will be in the developing world. Infrastructure activities need to simultaneously leverage the private sector and address the challenge of providing public goods.

Tenth, with increased national income and wealth in developing countries, domestic tax bases and government revenues have grown. Developing countries that harness "domestic resource mobilization" (for example, local capital markets, local savings and taxes and fees collected) can finance their own public goods and need outside assistance less than ever. In 2012, developing and emerging economies mobilized \$7.7 trillion in domestic resources, orders of magnitude beyond what is available in ODA (about \$150 billion a year).

Eleventh, corruption remains an endemic issue and is a tax on the private sector, undermining economic growth and threatening the achievement of government fiscal targets. An estimated \$1 trillion dollars is lost annually to corruption according to World Bank data. While corruption is a culturally variable concept, there can be no doubt that kleptocratic elites in the developing world, enabled by a system of global finance centered in the West, drain many state treasuries of money that belongs to the people. For every dollar of ODA that comes

in the front door of many developing countries, between eight and ten dollars go quietly out the backdoor into some offshore shell account.

Twelfth and finally, a series of regional security threats endanger stability and safety. Gangs and criminal networks in Central America, radical Islamist groups in the Middle East and Africa, and low-level civil conflict in Africa require a variety of responses. This includes assistance, but assistance must be integrated into much broader policies to be effective.

Given these twelve major trends, all use of U.S. bilateral and multilateral assistance should be viewed through a series of strategic lenses. These lenses compose the set of priorities that should shape the use of development assistance.

We should emphasize and catalyze private sector-led economic growth and improve the quality of governance. In most, but not all cases, that corresponds to democratic governance.

We should respond to the China challenge and to an assertive Russia, meaning that, all else equal, aid that is relevant to theatres of competition where those to states are engaged should have priority over theatres in which they are not engaged.

We should combat violent extremism. Clearly, without basic security, no development is going to happen, and no development assistance can be effective. To that same end, we must reverse or mitigate the extent and impact of failed and failing states.

And we must repel other transnational threats, including global pandemics, illicit drug networks, and human trafficking. From an economic point of view, all of these problems are major externalities, and succeeding in these daunting challenges will have a far greater positive impact on development that any imaginable amount of ODA can have.

#### **DROP CAP**

Can the U.S. government effectively do any of these things, as far as development assistance is concerned? The question raises the prospect that in some respects we are our own worst enemy. The "development" portfolio in the U.S. government is splintered into more than twenty agencies with some sort of responsibility for international assistance. To this feudal structure one need add the "counter bureaucracy" of burdensome Inspector Generals, regulations, and laws that have only expanded (to thousands of pages in the Foreign Assistance Act) since 1961.

Given the limited U.S. domestic political constituency for development assistance, the next President will have to invest political capital to shift resource priorities, foster needed policy reforms, and make structural/organizational changes. One need only look at the major changes made under the George W. Bush Administration—the creation of the Millennium Challenge Corporation, the AIDS in Africa initiative, the addition of a Deputy Secretary of State to coordinate development policy, for example—and the counter example of President Obama who, while launching several Executive Order initiatives, has not engaged the Congress and has few institutionalized accomplishments in the development assistance area.

The U.S. government is also the largest, or one of the largest, shareholders of a set of critical multilateral organizations including the World Bank, the Asian Development Bank, the EBRD (former Soviet Union and Eastern Europe), the International Monetary Fund and others. The U.S. government will need to lead shareholders in making significant changes in approach, priorities, and staffing to remain relevant. What structural changes are needed to meet this changed world?

We are not properly organized to meet the challenges of the next twenty years. One agency should coordinate all U.S. development spending, similar to the period from 1961 to the mid-1970s when all foreign assistance spending was coordinated through USAID. A strengthened USAID should clear all development-related spending by HHS, CDC, Justice, EPA, USDA, and others. The next President should issue an Executive Order to achieve just that.

The personnel system needs strengthening and change. A separate personnel system should be instituted for the U.S. assistance system, for it requires a skill set that does not align well with that of either the civil service or the foreign service. That could reduce turnover: Over 60 percent of the USAID workforce has less than five years of service, with no consistent training. We should reinstitute a one-year training program for all incoming staff. Overseas development programs should have the option of being seven to ten year lengths and one person should be responsible for the success or failure of a program.

We also need an expeditionary assistance workforce and career track ready to work in failed and failing states for their entire career. The multilateral development banks should create a similar cadre of specialized professionals, systems, and instruments to confront the chronic challenges of failed and failing states. These professionals ought to be rewarded and promoted at an accelerated rate given the increased risks they would take. This new expeditionary workforce would be prepared to live in very difficult places, equipped with military training and "U.S. Army Ranger school type" survival training. They would not be armed but they would be familiar with military skill sets and discipline.

Additionally, our assistance workforce should be separated into four streams: a failed and failing states business model (the expeditionary workforce described above); a long-term development workforce focused on agriculture, democracy and governance, health systems, and such; an agency or bureau focused on building multisector partnerships with the private sector; and the Millennium Challenge Corporation as a stand-alone agency focused primarily on infrastructure.

The U.S. government should also make greater use of the instruments housed within OPIC, the Trade and Development Agency, the Development Credit Authority at USAID. It should increase its leadership of the Multilateral Development Banks and the IMF. It should pass IMF quota reform, name all U.S. Executive Directors concurrently as U.S. Ambassadors, as we do at the Asian Development Bank, to ensure greater connectivity with the State Department. The U.S. government should be actively involved in making personnel decisions as management contracts end at the World Bank, the IMF, and other MDBs.

Further, the U.S. government should review and ultimately remove all bilateral and multilateral regulations preventing the United States and MDBs from financing oil, gas, hydro and coal projects, including the "carbon cap" at OPIC.

#### **DROP CAP**

The next Administration should develop key initiatives to jump-start development efforts where they matter most. Above all, the U.S. government should re-engage in the fight against grand corruption at elite levels. It should reclaim leadership on ending corruption through reforms of police and security sectors, support for independent media, and effective justice systems and support for various industry initiatives, including the Extractive Industries Transparency Initiative (EITI).

It is also critical that U.S. policy do what it can to enable and equip global entrepreneurs. Job growth depends on entrepreneurs. The U.S. government should support improvements in the business climate as measured by the World Bank's "Doing Business Indicators," provide basic business training and ensure linkages to micro, small, and medium sized enterprise finance for partner countries.

Development assistance can also provide workforce/vocational training. Integrating young people into the formal economy could undermine incentives for terrorism and unplanned mass migration. Fortuitously, industries such as tourism/hospitality, construction, and ICT will need hundreds of millions of skilled workers. The U.S. government should lead a major public-private partnership with companies, civil society, educational institutions, and governments to provide workforce training to tens of millions.

The next Administration can also catalyze global infrastructure in response to the China challenge and the Asian Infrastructure Investment Bank. The U.S. government should identify an additional \$100 million a year for global infrastructure "project preparation" as well as specific reforms to OPIC, USAID, and TDA. The U.S. and Japanese governments should seek a "special" capital increase of the Asian Development Bank.

Another development target should be to empower women through increased secondary school graduation rates. The empirical evidence on changing the status of women turns on three things: urbanization; economic growth with high rates of industrialization; and girls finishing high school. U.S. government development assistance spending and technical assistance should be shaped to ensure that girls stay in school as long as possible.

We should also prepare better for global pandemics. The recent Ebola outbreak demonstrates that the world is not prepared for global pandemics. The U.S. government should complete the roll out of a new global pandemic surveillance network and re-establish a bioterrorism czar in the NSC. We need also to finish the job of eradicating polio. Pakistan, Afghanistan, and Nigeria are the three remaining countries with active cases of the disease, so eradication should be a priority for U.S. assistance in those countries. Giving up on eradicating polio means it will spread again and billions will have been wasted.

The U.S. government is also in a singular position to lead the world in expanding agricultural production. With a future global population exceeding 9 billion by 2050, there is an urgent need to address global agriculture. Current U.S. efforts fall short. Expertise in agriculture, including the creation and dissemination of GMO technologies, makes the United States a natural leader. U.S. policies should

support all sizes of farms, provide assistance for sanitary and phytosanitary standards, support open trade policies and farm-to-market infrastructure investments.

The next Administration must also emphasize the need to "Deliver on Democracy." The Western commitment to democracy rests within deep principle, but in most countries democracy must deliver effective positive change or a reversion to authoritarianism is likely. The U.S. government should support transparent and effective government, including public financial management, effective and non-politicized tax systems, and competent administration. We should also help strengthen property rights and the rule of law.

Another promising priority looks to the growth of the number of foreign graduate students studying science, math, engineering, city planning, and public administration and agriculture in U.S. institutions of higher learning. We influenced two generations of elites in developing countries who spoke English, admired America and looked to us instead of the Soviet Union. We should help find public and private resources to dramatically increase the number of graduate students from regions and countries such as Brazil, Africa, the Middle East, and non-China Asia to study "non-glamorous" but needed skills. The challenge is to make sure most of them return home. One way to fund this would be to set aside 10 percent of sector "earmarks" from Congress for water, health, and other directives for scholarships in those sectors.

Finally, we should encourage English language training in critical countries. The United States and its Anglophone partners should work together, in conjunction with the private sector, to spread English to countries such as Brazil or Ukraine where, broadly speaking, the average English spoken is poor or non-existent. We should be utilizing online courses with existing curriculum and leveraging existing spaces in businesses, embassies, and American centers. This is not merely self-interested. English is the language of global business, and a competence English-speaking core is a prerequisite for many countries getting in on the action.

#### **DROP CAP**

The next Administration must review from top to bottom how we allocate the roughly \$30 billion foreign assistance budget. We will need to make hard choices. We should place the intersecting torque points that marry economic growth to good governance at center of U.S. development policy. We should ensure that development resources and instruments work closely in partnership with the private sector. We need to link our assistance resources to our trade policy.

International assistance is a significant form of American soft power and should support broader U.S. foreign policy and national security goals. The consequences of inaction on reform and restructuring will directly affect the growth of markets for our goods and services, our claim to global leadership, and ultimately our national security.