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## BUDGET AND TRADE ISSUES: THE SEARCH FOR COMMON GROUND

*COMMON GROUND ON HOW TO DEAL WITH THE CLUSTER* of actions the federal government must take to make itself financially sound continue to elude the Congress. Partisan divisions, sharply honed in anticipation of the 2012 election campaign, can be paralyzing for a divided government. But efforts to craft bipartisan deals on the budget, spending, and debt continue, and in some economic arenas – notably trade and corporate tax reform (and perhaps even certain categories of spending such as farm subsidies) – there is perceptible cross-party convergence. Still, on the central issues of enacting a Fiscal Year 2012 budget, raising the federal debt ceiling, and enacting job-creating measures, the parties are divided. The discord is focused ideologically around the Republican refusal to raise taxes and the Democratic refusal to cut social programs and entitlements. This *WIBR* will look at the current state-of-play in Washington.

**THE ECONOMIC BACKDROP** – Washington is grappling with its fiscal problems against the backdrop of a decidedly mixed economic recovery. The April employment report showed better-than-expected net jobs growth of 244,000, despite a loss of 24,000 government jobs. Yet the unemployment rate rose to 9.0%, troubling even though the increase in jobs was taken as a better indicator of the real situation. Even the April rate of growth, however, isn't adequate to bring unemployment down to acceptable levels, and this reality – and Washington's response to it – is expected to be a key factor shaping policies ahead and the 2012 election.

In late April the government reported first quarter GDP growth at 1.8%, and 2.3% over the last four quarters, anemic figures for a recovery. Consumer spending was down, pushed by high gas (and food) prices, while government spending dropped by 5.2%. On the other hand, most economists expect growth to strengthen in the rest of the year, and the swelling oil price is already showing signs of deflating. Rounding out the mixed picture: the housing sector remains depressed, but stocks are up, and so are corporate profits. However, inflation is also rising as the dollar falls, and the U.S. trade deficit widened by 6% to \$48.2 billion in March 2011.

**Meanwhile, Events Abroad Remain Unsettling:** Eurozone debt troubles, which never completely cooled, boiled over again in early May amid rumors that Greece may ditch the euro. The rumors are likely wrong, but Greek debt has been downgraded and restructuring is probable, while Ireland is now seeking a larger bailout. The re-emergence of European financial woes sparked currency volatility as the euro plunged.

From Japan, the U.S. is suffering manufacturing bottlenecks due to the impact of the March earthquake on the availability of inputs. Especially hard-hit are auto-makers, forcing up vehicle prices – particularly unwelcome given that car purchases were a significant portion of first-quarter consumer spending. And though the United States got a strategic boost from the successful military attack on Osama bin Laden, turmoil in the Middle East/North Africa persists, and if events take a bad turn, the anticipated gas-price easing could fail to materialize.

**THE BUDGET** – The Congress has yet to come up with a unified Budget Resolution setting parameters for FY12 tax and spending. Though work on the 12 appropriations bills funding government departments and functions is proceeding, and these bills can be passed absent a Budget Resolution, the FY12 budget is one of the two venues where serious work on long-term deficit reduction is expected to take place. The House passed its Budget Resolution, authored by Budget Committee Chairman Paul Ryan (R-WI), in mid-April along partisan lines. It would cut spending and reform Medicare and Medicaid over the long term, and though spurned as too austere by most Democrats, it wouldn't eliminate the federal government's debt for decades.

**Senate Yet to Show its Hand:** The Senate's Budget Resolution, eagerly awaited as of this writing, is being drafted by Committee Chairman Kent Conrad (D-ND). It has been delayed by concerns that it may take an aggressive stance toward deficit reduction that could split Democrats. Late reports suggest Conrad will propose that the consensus target of \$4 trillion in debt reduction over ten years be achieved through equal parts of spending cuts and tax hikes. Such a formula may be impossible to reconcile with the House Budget Resolution. Intra-Republican splits are also surfacing, notably around the Ryan budget's proposed Medicare reform. Party leaders, angering conservatives, are backing away from the proposal as they see it scaring senior voters. In any event, it would likely be blocked by the Senate and White House.

**AND THE DEBT** – The other matter before Congress that requires grappling with fundamental budget issues is the need to raise the legal limit on the national debt. Washington has two and a half months to find a way forward. The Treasury Department now says it can manage under the current ceiling until early August, but warns of financial catastrophe should a congressional deadlock thwart a rise in the borrowing limit.

The Administration and most Democrats want a “clean” debt ceiling bill raising the current cap of \$14.3 trillion by about \$2 trillion. Republicans are insisting the legislation must include measures that will assure leaner future budgets. Various deficit-cut formulas have been floated (a balanced budget amendment, capping spending as a percentage of GDP, or – an idea supported by the White House – capping future spending with violations triggering cuts and/or tax hikes, raising the debt ceiling by small increments a few months at a time, matched with spending cuts). However, House Speaker John Boehner made clear in a May 9 speech that only a package coupling a rise in borrowing authority with specific budget cuts that exceed the increase in the debt limit would be acceptable to House Republicans, and that tax increases are off the table. Boehner's position leaves little room for compromise: “Cuts should be greater than the accompanying increase in debt authority.... We should be talking about cuts of trillions.... They should be actual cuts and program reforms, not broad... targets that punt the tough questions to the future.”

**SIGNS OF BIPARTISAN LIFE** – Given the tasks that the government simply must accomplish – to maintain credibility with its citizens and its creditors – there are serious cross-party efforts to find compromises. These efforts get momentum from the political side as well: neither party can be sure where the fallout would land if budget deadlock leads to government shutdown or debt ceiling deadlock leads to default. Obama assigned Vice President Joe Biden to lead talks involving six key members of Congress (two Republicans) in search of common ground. The group held its second meeting on May 10, just after Boehner laid down his markers.

The Senate's self-appointed Gang of Six (three from each party) is continuing its effort to craft a budget package based on the President's Debt Commission recommendations. Those were handed down last December but Obama backed away from them, as did many Republicans due to included tax increases. Still, the austere framework has credibility, and “Gang-Member” Senator Conrad's Budget Resolution is expected to reflect what the group comes up with (both his budget and the Gang's proposals are expected mid-month). And in yet another bipartisan effort, the President invited Senate Democrats and Republicans to meet with him – in separate get-togethers – on May 11 and 12 (similar invitations to House members will come later). Therefore, which alternative universe – compromise or crash – will be Washington's fiscal/budget reality leading into the 2012 electoral campaign should become clear by June.

**TRADE: MORE BIPARTISAN LIFE** – As the U.S. trade deficit widened in March, the same sort of bipartisan coalition that came together to pass previous free trade agreements – combining the White House with a majority of congressional Republicans and a minority of Democrats – is coalescing around support for the pending FTAs with South Korea, Colombia, and Panama. The Republicans have been insisting that they won't move the South Korea deal, which the White House had ready since December, unless all three are submitted at the same time. Over the past month, U.S. Trade Representative Ron Kirk reported that Panama has adopted all the measures relating to its labor and tax regimes wanted by Washington, and that Colombia has met the initial benchmarks set out in the action plan for beefing up labor protections that it worked out with the U.S. last month, and will soon meet others. Thus, said Kirk, the White House is ready to submit implementing bills for all three deals, all of which were signed (years ago) in time to receive fast-track treatment under the now-expired presidential trade negotiating authority. Technical discussions have begun with Congress on the precise shape of the bills, and the betting now is that they will pass before the August recess. Issues remaining include the Administration's commitment to renewal of the Trade Adjustment Assistance worker-aid program at the same time (Republicans have concerns over cost and effectiveness), Boehner's demand that the President take a high-profile role in promoting the deals, and, from Seoul, the possibility that the politically-weak ruling party may have difficulty winning quick ratification of the U.S. FTA (it just finished using tough tactics to push through the EU-South Korea FTA).

**TRADE: BUT DOHA'S SLOW DEATH QUICKENS** – On April 21, the chairmen of the WTO's Doha Round negotiating groups released revised texts showing the current status of their talks. They revealed that almost no meaningful progress was made over the past three years. In remarks soon after, Director-General Pascal Lamy confirmed the dismal state-of-play. There is consensus on one point: if an accord isn't reached this year, political realities will preclude agreement for years to come. The question, therefore, is what to do now.

Lamy's answer is that he will consult with members on a “way forward.” The EU proposed a compromise on what Lamy tagged as the dominant sticking-point, the U.S. demand that China, India, and Brazil agree to engage in “sectoral” talks to lift tariffs on chemicals, industrial machinery, and electronics. Brussels proposed that the sectorals eliminate these tariffs for the rich but allow more flexibility for the developing countries, while still forcing their duties below what the basic Doha Round formula would require. Washington gave no indication of being interested, and India rejected the idea. Signaling how difficult it would be for the U.S. to soften its demands, eight of the largest U.S. private sector associations released a joint letter on May 2 stating they would not support a Doha deal without such additional foreign market-opening.

**Doha-Lite Again on the Table:** Some voices continue to argue that a Doha failure would do unacceptable harm to the WTO and world trade, and even to multilateral efforts on other international problems. They urge that heads-of-state get involved, beginning with the leaders of the U.S. and China, who should make clear that reaching a deal trumps any narrow domestic interests. So far, no leaders have stepped up. Others (such as the *Financial Times* foreign economic editor) call for acknowledging Doha's death and moving on. Yet others propose alternatives to a full Doha accord, in effect a “Doha-lite” – an effort to capture areas where consensus seems in reach and leave the tough (but more commercially significant) areas of farm and industrial tariffs, services access, and changes to trade rules either for some future time or for a pact of limited membership. Former USTR Susan Schwab, writing in *Foreign Affairs*, suggested possible elements for a Doha-lite capture, including agreement to limit fisheries subsidies, rein in rich-country agriculture subsidies, eliminate tariffs on environmental goods, and provide full access for LDC exports. However, it would be difficult even to forge agreement among the WTO's 153 members on what a “lite” accord should include – and Washington insists it will only accept an “ambitious” agreement.

**BACK IN CONGRESS: COMPETING FOR JOBS:** Facing the intense economic uncertainty of the moment, politicians are eager to be pro-active on the issue that out-polls the budget deficit as the main voter concern – jobs. In early May, Democrats and Republicans unveiled competing job-creation packages, both largely compilations of long-promoted measures. There was little overlap, although both called for corporate tax reform and retention of some investment incentives. But the packages came from the House Democrats and Senate Republicans (that is, from the minority party in each chamber which lacks the ability to move its proposals legislatively), so at this point they are best seen as documents of political position and philosophy.

The Democrats' plan renews their 2010 “Make It in America” initiative, aimed at boosting competitiveness. Among the 30+ components, it calls for ending tax breaks for corporations that outsource jobs and strengthening “Buy American” rules on government infrastructure projects. It includes legislation that would penalize China for currency manipulation. It would reform corporate taxes by coupling lower rates with fewer loopholes, an approach not uncongenial to Republicans. The Republican plan calls for cutting government spending, making the standard Republican argument that less government involvement in the economy, lower taxes, and a lower deficit would spur job-creation. The trade component calls for passage of the three pending FTAs and renewal of the President's fast-track trade promotion authority – planks with which many Democrats and the White House agree but which don't appear in the Democrats' jobs plan.

Who's Who Intl. Washington 11-05

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**AGRICULTURE DEPARTMENT**

**FOREIGN AGRICULTURAL SERVICE-** **Mariano Beillard**, who has been **Brazil Desk Officer**, will be transferring to work in Egypt.

**COMMERCE DEPARTMENT**

**UNDERSECRETARY FOR EXPORT ADMINISTRATION-** The nomination of **Eric Hirschhorn** has again been approved by the Senate Banking Committee and sent to the full Senate for a vote on his confirmation. Hirschhorn's appointment has been blocked because of a hold by Senator Jon Kyl, and he is now serving at Commerce under a recess appointment.

**DIRECTOR, RUSSIA, UKRAINE AND EURASIA AFFAIRS-** **Jack Brougher** has retired from government. **Matt Edwards** is now Acting in the post.

**DEFENSE DEPARTMENT**

**SECRETARY-** The President's choice of **Leon Panetta** as successor to Robert Gates is widely seen as an indication that budget issues will have high priority at DOD. The current CIA Director, Panetta is a former Director of the Office of Management and Budget and Chair of the House of Representatives Budget Committee.

**ASSISTANT SECRETARY FOR ACQUISITION-** The nominee is **Barbara McQuiston**, who is now a technology management consultant and previously worked in several positions with the Defense Advanced Research Projects Agency (DARPA).

**ENERGY DEPARTMENT**

**DIRECTOR, OFFICE OF RUSSIAN AND EURASIAN AFFAIRS-** **Lana Ekimoff** has retired. Her Deputy **Meryl Burpoe** is now Acting Director.

## STATE DEPARTMENT

**AMBASSADORS-** **Ryan Crocker** will move to **Afghanistan** from Iraq...Ambassador **Timothy Roemer** is leaving his post in **India**, possibly to return to politics in Indiana...Deputy Chief of Mission in Brasilia **Lisa Kubiske** has been nominated for **Honduras**...Deputy Chief of Mission in Baghdad **Stuart Jones** is the nominee for **Jordan**...Principal Deputy Assistant Secretary in the Bureau of East Asian and Pacific Affairs **Joe Donovan** may become the next Ambassador in **Korea**...**Martin Tueller**, now DCM in Egypt, is the nominee as Ambassador to **Kuwait**...**Michael Ranneberger** is leaving **Kenya**...**Jeanine Jackson**, a Minister-Counselor in Baghdad and former Ambassador to Burkino Faso, will go to **Malawi**... **Douglas Kmiec** is leaving as Ambassador in **Malta**...It is rumored that Deputy Ambassador in Afghanistan **Earl Anthony "Tony" Wayne** may be selected to be Chief of Mission in **Mexico**...Deputy Assistant Secretary of Logistics Management **William Moser** is the choice for **Moldova**...The nominee for **Nicaragua** is **Jonathan Farrar**, Chief of Mission for the U.S. Interests Section in Havana, Cuba...**Matthew Barzun** is leaving **Sweden** to work on fundraising for President Obama's reelection campaign...Deputy Assistant Secretary for Near Eastern Affairs **Michael Corbin** is the President's nominee for the **United Arab Emirates**.

**SPECIAL ENVOY AND COORDINATOR FOR INTERNATIONAL ENERGY AFFAIRS-** Former U.S. Ambassador to Mexico **Carlos Pascual** has been appointed.

**ASSISTANT SECRETARY FOR WESTERN HEMISPHERE AFFAIRS-** **Arturo Valenzuela** is leaving and will return to Georgetown University.

**COORDINATOR FOR CYBER ISSUES-** **Christopher Painter** will lead this new office, including coordinating the Department's global diplomatic engagement on cyber issues. He has been Senior Director for Cybersecurity Policy on the National Security Council staff.

## TREASURY DEPARTMENT

**UNDERSECRETARY FOR TERRORISM AND FINANCIAL CRIMES-** The confirmation of nominee **David Cohen** may be held up in the Senate because of issues relating to enforcement of sanctions against Iran.

**ASSISTANT SECRETARY FOR ECONOMIC POLICY-** **Janice Eberly** has been nominated. She is Professor of Finance at the Kellogg School of Management at Northwestern University and previously served on the staff of the White House Council of Economic Advisors.

**ASSISTANT SECRETARY FOR TAX POLICY-** **Michael Mundaca** is resigning effective May 13. With his departure, Treasury's tax reform work will be in the hands of Deputy Assistant Secretaries **Emily McMahon** (Tax Policy) and **Mark Mazur** (Tax Analysis).

**DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL TAX AFFAIRS-** **International Tax Counsel Manal Corwin** has been named to replace Stephen Shay. Corwin's successor is **Michael Caballero**, formerly Deputy International Tax Counsel.

**COUNSELOR TO THE SECRETARY- Robert Berner**, who has been an economist with Morgan Stanley, has joined Treasury to advise the Secretary on domestic financial issues, including establishing a new office of financial research as required by the Dodd-Frank law.

**CONSUMER FINANCIAL PROTECTION BUREAU-** The White House has not yet announced who will lead this new Bureau. **Elizabeth Warren** is apparently still a candidate. Also mentioned is Federal Reserve Governor **Sarah Raskin**.

### **WHITE HOUSE**

**OFFICE OF THE VICE PRESIDENT-** **Shailagh Murray** is the new **Communications Director**. She has been with the **Wall Street Journal** and the **Washington Post**.

### **EXPORT-IMPORT BANK**

**DEPUTY CHIEF OF STAFF-** **Alison Kutler** is reportedly leaving the Bank to join the private sector.

### **FEDERAL RESERVE**

**BOARD OF DIRECTORS, FEDERAL RESERVE BANK OF NEW YORK-** General Electric CEO **Jeff Immelt** has resigned.

### **OVERSEAS PRIVATE INVESTMENT CORPORATION**

**VICE PRESIDENT OF EXTERNAL AFFAIRS-** **Judith Pryor** has taken this position and will oversee all public and legislative affairs activities. Before joining OPIC, she was Senior Vice President for Global Corporate Affairs with WorldSpace Inc.

### **SECURITIES AND EXCHANGE COMMISSION**

**COMMISSIONER-** A candidate to fill an upcoming Republican vacancy on the Commission is Washington lawyer **Daniel Gallagher**, a former SEC staff member now with the WilmerHale law firm. If nominated, he would succeed Kathleen Casey, whose term expires in June.

### **UNITE STATES TRADE REPRESENTATIVE**

**DIRECTOR, AGRICULTURAL NEGOTIATIONS-** After a long a distinguished career, **Barbara Chattin** is retiring from government service this month.

## CONGRESS

**SENATE**- Nevada Republican Congressman **Dean Heller** has been appointed by his state's Governor to succeed **John Ensign**, who has resigned because of ethics issues.

**SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE**- Committee Chairman Tim Johnson (D-SD) has named his Committee staff. Senior Adviser to the Chairman is his Chief of Staff **Drey Samuelson**. Deputy Staff Director and Chief Counsel is **Charles Yi**, who was Deputy Assistant Secretary of the Treasury for Banking and Finance. The Chief Economist is **Marc Jarsulic** and the Policy Director is **Laura Swanson**.

**SENATE ENERGY AND NATURAL RESOURCES COMMITTEE**- **Patrick McCormick**, **Rebecca Rosen**, and **Pasha Majdi** have joined the staff of Ranking Republican Lisa Murkowski.

**HOUSE MEMBERS**- **Mike Pence** (R) will be running for Governor and **Joe Donnelly** (D) for Senator in their home state of Indiana.

**HOUSE WAYS AND MEANS COMMITTEE**- **Robert Duncan** is on detail from the U.S. International Trade Commission as a Trade Analyst for the Trade Subcommittee Minority staff.

## INTERNATIONAL ORGANIZATIONS

**EUROPEAN CENTRAL BANK**- Italy's **Mario Draghi** will likely be the next President.

**UNITED NATIONS**- **Jeffrey DeLaurentis** has been nominated to be the U.S. **Alternate Representative for Special Political Affairs**. He has been Deputy Assistant Secretary of State for Western Hemisphere Affairs...Professor **Jean Claude Mbanya**, President of the International Diabetes Foundation, and **Dr. Eduardo Cazap**, President of the Union for International Cancer Control, have been elected as Co-Chairs of the Civil Society Task Force to advise on the forthcoming UN Summit on Non-Communicable Diseases...Americans **Michael Stefanovic** and **Dr. Deborah Rugg** have been added to the Office of Internal Oversight.

**WORLD TRADE ORGANIZATION**- The Obama Administration has reportedly blocked the reappointment of **Jennifer Hillman** for a second term on the WTO Dispute Settlement Body. Also leaving the DSB will be **Lilia Bautista** of the Philippines.

## FOREIGN EMBASSIES

**GERMANY**- **Ambassador Klaus Scarioth** will leave Washington this summer. His successor will be **Peter Ammon**, now a State Secretary with the Foreign Ministry in Berlin who was previously posted in Washington as Minister (Economic)...The current incumbent in the embassy's Economic Minister job, **Matthias Sonn**, will also leave Washington this summer...**MAURITIUS**- **Somduth Soborun** is the new Ambassador...**NETHERLANDS**- Deputy Chief of Mission **Gerardus van der Wulp** is leaving for a post in the Caribbean.