



Washington REPORT

News and analysis from Washington, D.C. about key issues in U.S.-Asia Pacific Relations

Volume 6 November 2008

The Global Financial Crisis: Impact On The U.S. Economy And U.S. Relations With Asia

USAPC Interview with Prof. Anne Krueger

President Bush was upbeat about the outcome of the Summit on Financial Markets and the World Economy, which he convened November 15 in Washington, but careful not to oversell it as the solution to the world's problems. He described the summit as "an important first step" toward reforming financial markets and shoring up the global economy. Seasoned policymakers foresaw this outcome given the enormity of the crisis and the brief run-up to such an important meeting.

Prof. Anne Krueger of the Johns Hopkins School of Advanced International Studies spoke with the U.S. Asia Pacific Council several weeks before the summit. She reflects on the U.S. government's initial response to the financial crisis, what one might expect from the summit, and the impact of the crisis on U.S.-Asia economic relations.

USAPC: Some analysts have suggested that the financial crisis has undermined the credibility of the United States as an advocate of financial liberalization, particularly in its dealings with China and other emerging Asian economies. How can we restore confidence in the importance of economic liberalism for continued growth and prosperity?

Krueger: I don't think we've lost this confidence completely. But I do think it is far too soon to try and understand what the lessons are from the current crisis. The problems we face now are not because of something the United States did wrong and the rest of the world did

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Democratic Gains In Congress May Re-Focus U.S.-Asia Policy

Voters on November 4 expanded the ranks of Democratic members in both the Senate and the House of Representatives in the 111th Congress, sharply diminishing the capacity of the Republican party to affect policy amid one of the worst economic crises in decades.

When the new Congress convenes in January 2009, Democrats will enjoy a 57-40 majority in the Senate, as compared to their current, very slim 51-49 margin. In the House of Representatives, the election boosted Democratic membership to 255;

Republicans will hold 175 seats. In the 110th Congress, Democrats have held about 233 seats to the Republicans' 202. (In mid-November, there still were three undecided races in the Senate and five contests that have yet to be resolved in the House.)

"Big Bang" Agenda—The stronger Democratic presence in both chambers undeniably creates a more receptive environment on Capitol Hill for what some analysts are calling President-Elect Barack Obama's "big bang" domestic agenda. This

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Official Washington

In each issue, Washington Report will provide the names and contact information for selected executive branch officials with jurisdiction over economic, political, and security issues important to U.S.-Asia Pacific relations. This issue focuses on pertinent personnel from the Department of Defense.

Mailing Address:

Department of Defense
2000 Defense Pentagon
Washington, D.C. 20301-2000

Office of Defense Policy:

Eric S. Edelman—Under Secretary for Policy,
Pentagon 3E806, 703.697.7200

Asian and Pacific Security Affairs:

James J. Shinn—Assistant Secretary for Asian
and Pacific Security Affairs, Pentagon 5D688,
703.695.4175

Mitchell Shivers—Principal Deputy Assistant
Secretary for Asian and Pacific Security Affairs,
Pentagon 5C718, 703.614.5109

Maj. Gen. Bobby J. Wilkes—Deputy
Assistant Secretary, Central Asia, Pentagon
5C718, 703.614.5109

Scott Schless—Principal Director, Central
Asia, Pentagon 5C718, 703.697.7348

Col. Donald McGraw—Director,
Afghanistan, Pentagon 5C718,
703.695.3683

James Clad—Deputy Assistant Secretary,
South and Southeast Asia, Pentagon 5D652,
703.695.6495

Amer Latif—Director, South Asia,
Pentagon 5D652, 703.695.8269

Lew Stern—Director, Southeast Asia,
Pentagon 5D652, 703.614.1383

David Sedney—Deputy Assistant Secretary,
East Asia, Pentagon 5D652, 703.697.7207

John Hill—Principal Director, East Asia,
Pentagon 5D652, 703.697.7207

Dave Helvey—Director, China, Hong
Kong, Mongolia, Taiwan, Pentagon
5D652, 703.695.8270

Suzanne Basalla—Senior Desk Officer,
Japan, Pentagon 5D688, 703.614.2247

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right. In fact, the Europeans are discovering that they have more than their share of troubles as do others. To blame everything on the United States is a bit much.

But we hear some Americans arguing the same thing—“the crisis proves that markets don’t work.” Well, nobody has ever said that free markets include an unregulated monetary system. There is still a strong association between more liberalized and deeper financial markets and higher per capita income and stronger economic growth. No country has grown without extending its financial markets.

Countries with very narrow financial markets face more painful problems when they occur because there is no other place in the system to absorb the shock, so to speak. The lesson that we should not liberalize is not the right lesson. Rather, the lesson is that we must watch regulation.

The history of the last three centuries is one of enormous prosperity, economic growth, rising living standards, and all good things that accompany that. But we’ve also been learning as we go how to develop a financial system that works **only** for us. Right now, it works for us but it also has drawbacks.

USAPC: As we speak, President Bush just invited the so-called G-20 nations¹ to participate in a summit on November 15 to address the global financial crisis. Two of the expected attendees—China and India—were held responsible for the collapse of another important multilateral economic initiative, the Doha Round of trade negotiations.

With this G-20 gathering, are we setting ourselves up for another disappointment? Can a summit like this produce meaningful changes in the regulatory framework, particularly in view of the range of economies that will be participating?

Krueger: I don’t know of any major international agreement that has ever been produced at a heads-of-state meeting without a lot of preliminary staff work. And we have not seen that sort of preparation in the run-up to the November 15 summit.

The real risk is that the political leaders will not have anything all that constructive on which they can agree. About all the leaders may be able to do is to direct their staff to begin work on developing X, Y, or Z. That is not

¹The G-20 group is composed of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States, and the European Union. The November 15 meeting also included Spain, the Netherlands, and the United Nations.

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Congressional Watch

In the frenzied days preceding the October 3 adjournment of the House and Senate, lawmakers were focused primarily on passing the Emergency Economic Stabilization Act of 2008—widely referred to in the media as the \$700 billion “bank bail-out bill.” Nevertheless, there was just enough room on the legislative calendar for action on the following matters relevant to U.S.-Asia relations:

- **U.S.-India Nuclear Cooperation Agreement**—On September 10, President Bush submitted to Congress the U.S.-India Agreement for Cooperation Concerning Peaceful Uses of Nuclear Energy. The accord removes a 30-year U.S. moratorium on nuclear trade with India as well as provides U.S. assistance to India’s civilian nuclear energy program, among other elements. Some lawmakers complained that the legislative calendar did not allow for the 30-day consultative period required by law. Others reiterated oft-stated concerns that the agreement would weaken international nonproliferation efforts. But in the final analysis, the House saw fit to approve the measure on September 27 by a vote of 298–117; the Senate followed suit on October 1, approving the accord by a 83–13 vote. President Bush signed it into law on October 8.
- **U.S.-Republic of Korea Defense Cooperation Improvement Act of 2008**—On October 1, legislation to upgrade South Korea’s military status passed the Senate. The bill incorporated the “U.S.-Republic of Korea Defense Cooperation Improvement Act of 2008,” which was approved by the House on September 23. President Bush signed the legislation into law on October 15. The new law will make South Korea eligible for the same level of military sales as NATO, Australia, New Zealand, and Japan. It is aimed at improving bilateral defense cooperation by streamlining the defense sales process.
- **Arms Sales to Taiwan**—On September 23, the House passed by voice vote a bill aimed at amplifying a provision of the Taiwan Relations Act (TRA), which

states that the President and Congress shall determine the nature and quantity of defense articles and services provided to Taiwan. The bill was sponsored by Rep. Ileana Ros-Lehtinen (R., Florida), who is ranking minority member of the House Foreign Affairs Committee and one of Taiwan’s ardent supporters on Capitol Hill. It would require the administration to “provide detailed briefings to Congress on any recent discussions conducted between U.S. Government and the Government of Taiwan and any potential transfer of defense articles or defense services to the Government of Taiwan.”

Rep. Ros-Lehtinen introduced the bill in July following remarks by Admiral Timothy Keating, commander of the U.S. Pacific Command, which, in the lawmaker’s view, suggested that the administration had placed a freeze on arms sales to Taiwan. The Senate did not vote on Ros-Lehtinen bill before adjourning so it likely will die with adjournment of the 110th Congress.

In any event, pursuant to the Arms Export Control Act (AECA), the White House notified Congress on October 3 of plans to sell \$6.43 billion of weapons to Taiwan. The AECA gives Congress 30 days to comment on the sale, which will proceed if there are no objections. In view of the fact that lawmakers were adjourned during the 30-day review period, the administration likely will proceed with the sale.

- **North Korean Human Rights Reauthorization Act of 2008**—On September 23, the House agreed to a Senate-amended version of a bill it passed in May, which is aimed at promoting human rights in North Korea and improving protections for North Koreans fleeing the regime. President Bush signed the legislation into law on October 7. The new law elevates to ambassador the special envoy for North Korean human rights and expands his/her authority to protect those suffering as a result of the humanitarian crisis and human rights abuses. It also supports expanded U.S. broadcasting efforts in North Korea by the Broadcasting Board of Governors.

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approach likely would combine short-term fiscal stimulus (in particular, tax cuts for low- and middle-income workers) with large public investments in clean energy development, healthcare, and education. “Our increased numbers [in the House and Senate] will better enable us to work closely with our new president for a vision for

America and for a plan to succeed,” Speaker of the House Nancy Pelosi (D., California) said November 5.

At press time, it was unclear whether the House and Senate would consider any of the “big bang” agenda during the lame-duck session tentatively scheduled for November 17-19. Lawmakers instead may use that brief period to consider a smaller package, which might include financial support to the U.S. auto industry, additional unemployment aid, welfare-related assistance to states, and/or jobs-producing infrastructure projects.

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what a normal summit is about. So the risk lies in the fact that there has not been adequate preparatory work.

By the way, while China and India were blamed for the collapse of the Doha Round, I don't think they bear it single-handedly. There were a number of issues where one could have gone further.

On the other side, as well, the United States was the one that insisted on the narrower band before there would be any safeguards in agriculture. Fifteen percent and 40 percent for the Indians is not a very big difference given that they are very marginal importers in the first place.² So I can find blame on both sides for the collapse of the Doha Round.

USAPC: British Prime Minister Gordon Brown proposed using the upcoming G-20 summit as another opportunity to reach an agreement on the Doha Round. Is that a good idea?

Krueger: The Doha Round is one of the few areas on which there already has been a good deal of work, so it would be possible for the G-20 leaders to agree on something. And if they could conclude a Doha agreement, the leaders would then have something concrete that showed they met in Washington for a purpose.

Importantly, a Doha agreement would be good for the world economy, especially at this time. So I am hopeful, although not optimistic, that the G-20 leaders will seize on the Doha Round at the upcoming summit so they can demonstrate that the meeting produced something useful.

USAPC: The U.S. Federal Reserve and U.S. Treasury took some extraordinary actions in a four-to-six week period to contain the financial crisis. But do you think the authorities reacted with sufficient speed and intervened appropriately? Do we have any way of knowing whether the \$700 billion rescue plan will be sufficient to unclog the system and recapitalize banks?

Krueger: Concerning the latter, quite honestly, no one really knows at this stage whether the rescue package will be sufficient. Did the U.S. authorities handle the crisis well? It would have been much better if a more comprehensive package had been announced. It really does look as if U.S. authorities are playing catch-up ball and reacting.

And they still have not made clear how they intend to handle the inter-related problems of increasing non-

performing loans and falling housing prices. Until those things are addressed, it's not clear to me where we will be. I think there is a way to go.

USAPC: There is a view that Japan may be less affected by the financial crisis because it was forced to recapitalize its major banks in response to its financial crisis in the 1990s. Is it possible that Japan may weather this storm better than the United States or EU because it already has taken its bitter medicine, or is the "crisis contagion" such that no country is immune?

Krueger: There are two parts to this: one, what has happened so far; and two, what happens if, as most people expect, there is a recession following.

Recent data indicate that Japan's exports have been weak relatively; earlier data suggested that the Japanese economy was showing signs of weakness. So it is not entirely clear that Japan will fare better than we will. However, it does appear that Japan did not have as much

The main thing that can be done to help everyone is to develop policies that offer a shallower recession and a quicker turnaround

bad paper in their system as other countries so they don't have that particular source of difficulty and that could help them.

USAPC: What is the most effective way to support emerging Asian economies through this crisis?

Krueger: When countries find themselves in trouble, the IMF [International Monetary Fund] certainly can provide support. The main thing that can be done to help everyone, of course, is to develop policies that, indeed, will offer a shallower recession and a quicker turnaround than would otherwise happen. That would help everyone, both developed and emerging economies.

USAPC: Within the context of this G-20 summit, what can we reasonably ask or expect China to do to help stabilize the global financial system? There are reports that the Chinese government is developing an economic stimulus package. Would that be step in the right direction?

Krueger: China must look out for China. And as far as I know, China has not particularly contributed to the problem except in the sense that large liquidity helped to lower interest rates.

But for several years, most observers have argued, I

²For an explanation of the agricultural safeguards proposals see—
http://www.wto.org/english/tratop_e/agric_e/guide_agric_safeg_e.htm

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think correctly, that China needs to rebalance its economic growth toward greater emphasis on domestic economic activity and domestic demand and less on foreign demand.

Obviously, to the extent that China manages to offset the downward pressure in the external sector with greater domestic demand that will be support for the international economy as well as China.

USAPC: President Bush has warned that any re-write of regulations governing global finance should not undermine capitalism and free trade. Is this a valid concern or an overreaction?

Krueger: Certainly, people who argue that the financial crisis proves that capitalism is all wrong lend credence to President Bush's concerns. I don't think their argument is right in the sense that proponents of economic liberalism never did say that a totally free and unregulated financial market was the way to go.

There always has been recognition that banks must have adequate capital and they must be regulated to ensure that they don't just accept deposits and then run off with the money. That's clear.

However, some people have been saying that the crisis shows there is something wrong with American-style capitalism. I'm not convinced that it does, but there is a risk.

USAPC: Congress has been trending populist for some time. Particularly in the current economic climate, some newly elected lawmakers may favor policies that serve to constrain the forces of globalization through restrictions on trade and foreign direct investment.

Examples might be the re-emergence of proposals similar in spirit to that of Senator Charles Schumer (D., New York), which would have imposed punitive tariffs on Chinese imports as a way of forcing China to re-value its currency, or the negative hoopla concerning the planned investment by Dubai Ports World. What would your advice to lawmakers be about the need to avoid such extreme approaches to economic adversity?

Krueger: I think it would be difficult to pass proposals of that nature. I hope it won't happen because that is not the best way to address our economic problems. The gains from integration in the international economy are huge, and the costs of trying to pull back would be enormous.

Fortunately, I think there are strong market pressures to keep us integrated. The fact that many more industries now have various components produced in different

countries instead of having production all in one place helps to discourage extreme approaches because there will be enough people who would lose from that. So I believe that such approaches are less likely to be regarded as a good thing than might have been the case several decades ago.

USAPC: U.S. Federal Reserve Chairman Ben Bernanke has called for additional fiscal stimulus to help stave off a recession. Even before the November 4 election, there was growing support on Capitol Hill for a stimulus package, although the two parties differed on elements of the package. What are your thoughts?

Krueger: We can't stave off the recession. If, as most people think, we're going to see either flat growth or a downturn in the third and fourth quarters of 2008, by the time we get the fiscal stimulus package through Congress we will be in recession. So it's not a question of staving off the recession, rather it's a question of how deep and how long it will be.

In that regard, I think the key question is how quickly or how soon the real estate market bottoms out. Anything that is fiscal stimulus will probably make it bottom out sooner, but there are some proposals that could make that happen faster.

For example, some proposals call for giving direct tax credits for a certain fraction of mortgage payments. That would help to keep more homeowners in their homes. There are some big problems with this proposal, too, but you can target to some extent more effectively that way.

There is even a proposal, which I don't think is a good one, which would give a total tax credit for any new homebuyer for whatever they paid in the first two years. That would have huge fiscal implications.

USAPC: Martin Wolf of the *Financial Times* has argued that the current crisis is an outgrowth of huge global imbalances that have been building for the past decade. Do you agree, and how do we rectify these imbalances as part of the solution to the financial crisis?

Krueger: Over the longer term, there always have been cycles of economic activity. I think a lot of people felt two or three years ago that the pace of growth was not sustainable and there would have to be a slowdown.

Part of that pace, of course, was relatively liquid conditions and easy monetary policy. And part of that, in turn, came from the global imbalances, which could have been offset by tightening up monetary policy sooner. So you could sort of say, yes, the imbalances were a contributing factor.

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But in the normal course of events, there always are some periods in which growth is more rapid than in other periods. We were due for a slowdown. If there had not been the sub-prime mortgage problem, we might be saying that it was the oil price increase that did it. Certainly oil price increases contributed to our current problems, but they were not the main causative factor.

It's certainly true that global imbalances were a factor and they needed correction. For years, many people argued that the correction would be a very sharp depreciation of the dollar. Now they are worried that it is something else.

USAPC: As a result of this crisis, do you think we are headed toward some sort of global oversight of financial regulation and currency valuation?

Krueger: The key words are "some sort of." Until

people can agree "what sort of," they will argue that global oversight is a good thing or bad thing depending on what kind of regulation they think it will provide. Money is the most fungible thing there is. Finding anything that could be done nationally and internationally is going to be very hard.

USAPC: Are you generally optimistic that we will see the light of day?

Krueger: Of course, we will. The only question is how soon. ♦

Anne Krueger is a professor of international economics at the Johns Hopkins School of Advanced International Studies, a distinguished fellow and past president of the American Economic Association and a member of the National Academy of Sciences. She also served as first deputy managing director of the International Monetary Fund (IMF) from 2001 to 2006. Prior to that, she was the Herald L. and Caroline L. Ritch Professor in Humanities and Sciences in the economics department of Stanford University.

GAO Offers Transition Assistance On Financial Crisis

The Government Accountability Office (GAO) unveiled a new website on November 5 aimed at providing the transition team of President-elect Barack Obama insights into and recommendations for addressing the global financial crisis and other urgent issues confronting the new administration. The site is linked to the agency's homepage—www.gao.gov

GAO identifies the following challenges that will require immediate action:

- Effectively managing and evaluating efforts initiated by the Office of Financial Stability. This office was created by the Emergency Economic Stabilization Act of 2008—the \$700 million financial rescue plan enacted in early October—to implement the Troubled Asset Relief Program (TARP). The TARP provides the Treasury Department a broad set of tools ranging from purchasing troubled mortgages and securities backed by those mortgages to infusing capital into the financial system to stimulate credit markets and stabilize financial markets. Among other things, GAO urges the new administration (1) to hire a permanent management team with the requisite skills and knowledge to provide continuity to the program and (2) to ensure adequate resources to effectively carry out the program.

- Maintaining the safety and soundness of the nation's banking system. GAO recommends an evaluation of how the new Basel II framework for capital ade-

quacy regulation is being implemented, an assessment of the current risk-based examination process to ensure that risks are being appropriately identified, and assurances that bank regulators balance institutional safety and soundness while considering systemic risks from entities and products not subject to direct regulation

- Reforming the U.S. financial regulatory system to reflect 21st century realities. GAO plans to issue a report in January 2009 that will discuss the need for comprehensive reform of the regulatory structure to better reflect the current integrated and global markets by highlighting problems with the current structure as demonstrated by recent and past events. The report also will provide an evaluation framework that outlines the key elements that any new regulatory system should include regardless of the structure it takes, such as ensuring system-wide risks are identified and mitigated and that consumers are protected

- Restoring the functioning of mortgage markets. In 2009, GAO will issue various reports to inform policymakers about (1) coordinating programs aimed at mitigating foreclosures to help stabilize financial markets; (2) implementing mortgage lending standards that promote sustainable homeownership; (3) ensuring fair lending laws are being enforced; and (4) evaluating long-term options for ensuring a viable secondary market and the future of Fannie Mae and Freddie Mac.

Asia Pacific Dialogue

Pacific Economic Cooperation Council (PECC):

Climate Change and Food Production—PECC's Pacific Food System Outlook group met September 16-17 at the East-West Center in Honolulu, Hawaii to examine this topic and, in turn, produced a report that formally will be unveiled at the APEC meeting November 19-23 in Lima, Peru. It states that climate change impacts will vary across the region. Rising temperatures may raise agricultural productivity in some higher-latitude economies in the next century, but reduce it in lower-latitude economies. In this regard, the report recommends that subsistence households be equipped with new technologies and other resources needed to adapt to climate change and encouraged to diversify agricultural activities.

In addition, the report calls upon policymakers to play a significant role in climate change adaptation and mitigation through the following:

(1) Collecting and disseminating data targeted for local needs to help food system participants adapt both to gradual changes as well as extreme weather and climatic events;

(2) Supporting public funding for research and development into climate factors affecting different locations and to integrate findings into programs and economic development initiatives;

(3) Initiating programs to reduce greenhouse gases, which would be implemented on a regional (or preferably global) scale through APEC, the United Nations, or similar institutions;

(4) Expanding the production of biofuels in a cost-effective manner; and

(5) Promoting the greatest possible openness in the region's food system to reduce the risk of food supply disruptions.

The report will be available soon at www.pecc.org

Asia Pacific Economic Cooperation (APEC) forum:

APEC 2009 Symposium—The government of Singapore hosted a two-day symposium on October 15-16 to solicit input and ideas from a broad range of public and private sector individuals from APEC member economies in preparation for its hosting of APEC in 2009. The agenda will build upon the theme of a "connected region; building a stronger APEC" and focus on three main areas:

(1) Regional economic integration, described as "at the border;"

(2) Trade facilitation, or improving the business environment "behind the border" through structural and regulatory reform; and

(3) Enhancing infrastructural connectivity, described as "across the border," aimed at improving supply chains and electronic and other linkages between APEC economies.

Participants report that there were extensive discussions about the global economic crisis and APEC's institutional role. The group agreed that an appropriate contribution from APEC would be to ensure that its trade and investment liberalization agenda remains on track.

Key Official Meetings, November-December 2008:

● **President Bush** hosted leaders of the G-20 nations for a summit on the global economy and financial crisis, November 15, Washington, D.C.

● **U.S. Trade Representative Susan C. Schwab** will attend the 20th APEC Ministerial Meeting and **President Bush** will attend the 16th APEC Economic Leaders' Meeting, November 19-23, Lima, Peru.

● **Treasury Secretary Paulson** will lead a cabinet-level delegation to China for the fifth meeting of the U.S.-China Strategic Economic Dialogue, co-chaired by **Chinese Vice Premier Wang Qishan**, December 2008, Beijing, China.

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In any event, insiders agree that members of the 111th Congress, by necessity, will be focused intensely on domestic economic problems—not to mention re-organizational matters typical of any new Congress—for at least the first six-to-nine months of 2009, possibly even for the first full session.

Impact on Asia Policy—In practical terms, this means that any thoughtful consideration of challenges in

U.S.-Asia economic, diplomatic, and security relations by House and Senate lawmakers may not be possible for several months. But when Members do get down to the business of examining transpacific issues, it does not appear that Democratic lawmakers will use their increased numbers to fundamentally alter or upend decades of U.S. policy toward Asia.

Rather, experts anticipate that members of the House and Senate likely will build upon legislative proposals and policy themes that emerged in the 2006-2008 period.

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These generally focused on the impact of rising China on the U.S. economy, U.S. trade and competitiveness problems more generally, and human rights problems in Asia. There may be a sharper edge to some of the legislation, but bills that actually reach the desk of President Obama will, by political and diplomatic necessity, be more moderate than extreme. The following is a snapshot of Asia-related issues Congress likely will consider:

China's Unfair Trading Practices—China's economic and regulatory policies will continue to come under tough scrutiny next year. Senate Finance Committee Chairman Max Baucus (D., Montana) already has indicated that he will re-introduce legislation next year aimed at toughening enforcement of U.S. trade agreements. Although the legislative language probably would not reference China specifically, the bill certainly would aim to redress more aggressively Beijing's alleged unfair trading practices.

Baucus has maintained that he and other congressional Democrats have been very dissatisfied with paucity of unfair trade cases that the Bush administration initiated against China. That shortcoming, in turn, has cost American workers their jobs and served to fuel to burgeoning bilateral deficit, they have argued. House Ways and Means Committee Chairman Charles Rangel (D., New York) introduced the House counterpart in 2008 and also is expected to re-introduce it in the new Congress.

China's Currency Policy—Related to this, Democratic lawmakers can be expected to continue to pay close attention to China's currency policy. Although the RMB has appreciated against the dollar in recent years, its upward valuation seems to be stalling as 2008 draws to a close. That development—against the backdrop of a global economy veering toward a deep recession—may compel some Democratic lawmakers to re-introduce legislation aimed at pressuring Beijing to revalue the RMB by, among other means, imposing prohibitive duties on Chinese imports.

Introduction of such legislation may be even more likely if President-Elect Obama's Treasury Department determines that China has not been manipulating its currency in the semiannual report to Congress on international economic and exchange rate policies. That was the consistent finding of the Bush administration and it fueled punitive legislation. The first of the so-called currency reports is due on April 15, 2009.

Product Safety—In the same vein, the Democratic-dominated Congress probably would pounce on any new reports about tainted Chinese food, toys, or consumer products as a reason to introduce legislation that would effectively limit Chinese imports by raising regulatory

Public Diplomacy

United States, South Korea Launch Educational Exchange Program—U.S. Secretary of State Condoleezza Rice and South Korea Foreign Minister Yu Myung-hwan signed a Memorandum of Understanding (MOU) on the Work, English Study, Travel (WEST) Program and expansion of other reciprocal exchange initiatives on September 22 in New York.

The MOU was an outgrowth of discussions between President Bush and South Korean President Lee Myung-bak at their summit on August 5 in Seoul, South Korea. The two leaders agreed it was important to create new bilateral opportunities for young Americans and Koreans to learn about each other's country by working, studying, and traveling abroad.

The WEST program will begin in 2009, coordinated by the private sector under the auspices of the State Department's Bureau of Educational and Cultural Affairs. It will allow up to 5,000 qualifying university students and recent university graduates from South Korea to enter the United States for a period of 18 months on J-1 exchange visitor visas. Such visas will allow holders to study English, participate in internships, and travel independently. Participants must devote at least 450 classroom hours to structured English language training and coursework that focuses on U.S. business practices and procedures and U.S. corporate culture.

The South Korean government, for its part, will establish an 18-month Working Holiday Program, under which U.S. participants can pursue work, study, and travel in South Korea. Seoul has yet to announce details of the program.

Authority for the WEST program derives from the Mutual Educational and Cultural Exchange Act of 1961, also known as the Fulbright-Hays Act.

hurdles. The original impetus for the Consumer Products Safety Commission Reform Act of 2007, which established new safety requirements for children's products among other reforms, was the scandal that erupted nearly two years ago involving imported, defective Chinese toys.

China and the Global Economic Crisis—As a follow-up to the G-20 summit, the new Congress may examine China's response to the global economic crisis. World capitals responded favorably to the ambitious \$586 billion fiscal stimulus plan Beijing unveiled on November 9.

However, it remains to be seen whether the spending plan will boost domestic consumption sufficiently to strengthen China's flagging economy and reduce its reliance on export-driven growth. If, as some economists

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fear, the plan ultimately does not put much of a dent in the nearly \$300 billion bilateral trade deficit, this could provoke a strong reaction on Capitol Hill.

U.S.-South Korea Free Trade Agreement (KORUS-FTA)—The KORUS-FTA hit a brick wall in the current Congress and is not likely to fair much better in 2009. Democratic lawmakers from Michigan have argued vociferously against the accord on grounds that it would not provide U.S. automakers the same access to the Korean market that their Korean counterparts enjoy in the American market. Rep. Carl Levin (D., Michigan), for one, has used his position as chairman of the House Ways and Means Trade Subcommittee to block action on the KORUS-FTA. Senator Baucus also refused to move the agreement through the Finance Committee because of Seoul's unwillingness to allow imports of all U.S. beef.

Moreover, President-Elect Obama effectively has boosted their arguments against near-term action on the KORUS-FTA. The incoming chief executive has said the accord is "defective;" his advisors also are on record as saying Korea trade pact should not be ratified "without appropriate safeguards." In addition, these advisors maintain the president-elect will insist that trade agreements negotiated by the United States include enforceable labor and environmental standards and provide for effective access to foreign markets for American exports. They will not say whether the new administration will go so far as to re-negotiate the KORUS-FTA, although congressional Democrats likely would urge that solution.

Other Asian FTAs—Unlike the KORUS-FTA, the Transpacific Strategic Economic Partnership (TSEP), an FTA involving Brunei, Chile, New Zealand, Singapore, and the United States, may not encounter quite as much resistance on Capitol Hill. U.S. Trade Representative

The KORUS-FTA hit a brick wall in the current Congress and is unlikely to fair much better in 2009

Susan Schwab announced Washington's decision to join the so-called "P4" trade pact in late September. There is a view that the TSEP ultimately could pave the way toward conclusion of a Free Trade Area of the Asia Pacific (FTAAP), The FTAAP is an initiative that would bring the 21 member economies of the Asia Pacific Economic Cooperation forum (APEC) under one trade-liberalizing umbrella agreement.

It would appear that Senator Baucus supports the TSEP and could emerge as its advocate in 2009. In a speech this past September, the Senate Finance

Committee chairman called for "renewed U.S. engagement" in Asia that featured an "out of the box" approach to trade policy. In addition to pursuing an innovative services FTA with Japan, Baucus proposed conclusion of a regional arrangement like the TSEP. With these two agreements, the United States could then begin to "stitch together existing U.S. trade agreements with Chile, Australia, and South Korea [and in turn] open such a regional agreement to newcomers, like Malaysia, New Zealand, Taiwan, and Vietnam," the Senate Finance Committee chairman said.

Securing denuclearization of North Korea will continue to loom large in the new Congress

It is possible that Senator Baucus will continue to explore an Asian regional FTA through hearings on the TSEP and/or legislation. But at this stage it is unclear whether the Obama administration would attach the same degree of importance to concluding the TSEP as did the Bush administration. When questioned about new FTAs, Obama's advisors only will reiterate the importance of including enforceable labor and environmental standards.

North Korea—In terms of foreign policy, the first priority of 111th Congress will be to address the monumental challenges that remain in Iraq, Afghanistan, and Pakistan. But at some point next year, lawmakers will resume oversight of U.S. diplomacy in the Asia Pacific.

The denuclearization of North Korea will continue to loom large. During the campaign, both President-Elect Obama and Senator John McCain (D., Arizona) criticized the Bush administration's initial refusal to engage in diplomatic interaction with North Korea. Obama, in particular, argued that this "hands-off" approach was disastrous because it enabled North Korea to proliferate nuclear technology to Syria and test a nuclear device.

In all likelihood, Republicans and Democrats alike will want to see a new approach that keeps North Korea actively engaged in negotiations so that Washington can secure a more detailed, comprehensive, and credible verification protocol from North Korea.

Human Rights—At some point in the 111th Congress, observers expect that Democrats again will elevate the importance of redressing human rights abuses in Asia. This trend began during the 110th Congress and likely will continue next year, particularly in view of the expanded Democratic majorities and the policy interests of leading lawmakers.

House Speaker Pelosi, for one, has been an ardent critic of China's human rights record, as has Rep. Howard

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Democratic Gains

Berman (D., California), the expected chairman of the House Foreign Affairs Committee. Senator Russell Feingold (D., Wisconsin), who may become the new chairman of the Senate Foreign Relations Committee, has long championed the plight of the ethnic Hmong refugees. And in years past, Senator Barbara Boxer (D., California), who chaired Foreign Relations Subcommittee on Asian and Pacific Affairs in the 110th Congress, has been a vocal critic of human rights conditions in Vietnam.

The fact that these “activists” will continue to hold senior positions in the new Congress increases the likelihood that human rights initiatives will make it out of committee and on to the House and Senate floors.

Certainly, the oppressive situation in Burma will be high on Congress’ human rights agenda, particularly if the junta clamps down on opposition leader Aung Sang Suu Kyi or otherwise threatens her well-being. The abysmal track records of North Korea and Vietnam also undoubtedly will receive attention, influenced as much by the personal interest of Pelosi, Berman, et. al., as by the highly organized and mobilized ethnic constituencies that played key roles in shaping human rights initiatives in 2006–2008. ♦

Election Shakes Up Key Committees

As a result of electoral defeats and retirements, the 111th Congress will see a number of important changes in the leadership and membership of committees with jurisdiction over Asia-related legislation. Committee assignments will not be finalized until well into the new year. Nevertheless, it is worth noting who may be in contention to lead these panels as that individual may play an important role in shaping U.S.-Asia policy.

Senate Foreign Relations—Perhaps the most dramatic membership shakeup will be on the Senate Foreign Relations Committee. The current chairman, Senator Joseph Biden (D., Delaware), will leave Capitol Hill next year for the Vice President’s office.

The next ranking Democrat, Senator Christopher Dodd (D., Connecticut), announced that he would forego this chair in favor of leading the Senate Committee on Banking, House, and Urban Affairs. Following Dodd in seniority is Senator John Kerry (R., Massachusetts). However, Kerry’s name has been bandied about as a possible cabinet official in the Obama administration.

Senator Feingold, in turn, follows Kerry in seniority, hence he might be the one to assume this important chair. As mentioned in the previous article, Feingold has distin-

guished himself as an activist on human rights issues in Asia. As chairman, though, he (or Kerry) likely will be very focused on U.S. policy toward Iraq, Afghanistan, and Pakistan. By necessity, the new chairman may have to rely initially on the chair of the subcommittee on Asian and Pacific affairs to conduct oversight of U.S.-Asia policy. In the 110th Congress, that person was Senator Barbara Boxer (D., California), who may continue as chair.

Ranking Minority Member Richard Lugar (R., Indiana), who was mentioned as a possible Secretary of State in the Obama administration, has indicated he will remain in the Senate. But Senator Chuck Hagel (R., Nebraska), the next senior Republican, has retired and Senator Norm Coleman (R., Minnesota), who follows Hagel, ultimately may lose his seat. Thus, Senator Bob Corker (R., Tennessee) could become the second-ranking Republican if he elects to remain on this panel. Senator George Voinovich (R., Ohio) follows Corker in seniority.

House Foreign Affairs—Committee Chairman Howard Berman (D., California) and Ranking Minority Member Ileana Ros-Lehtinen (R., Florida) were re-elected and likely will retain these posts in the new Congress. In addition, there were no major changes on the Subcommittee on Asia, the Pacific, and the Global Economy. Hon. Eni Faleomavaega (D., American Samoa) probably will continue to chair this panel, with Rep. Donald Manzullo (R., Illinois) serving as ranking minority member.

Senate Finance—The electoral defeats of Senator Gordon Smith (R., Oregon) and Senator John Sununu (R., New Hampshire) will create openings on the Republican side of the Senate Finance Committee, which has jurisdiction over trade legislation. Senator Max Baucus (D., Montana), who chaired the committee in 2006–2008, handily won reelection. He likely will assume this chair in 2009 and continue to work closely with Ranking Minority Member Charles Grassley (R., Iowa).

House Ways and Means—The only notable changes on the House Ways and Means Committee, from which trade legislation originates in the lower chamber, were on the Republican side. Ranking Minority Member Jim McCrery (R., Louisiana) retired. Rep. Wally Herger (D., California) followed McCrery in seniority, but there have been reports that Rep. Dave Camp (R., Michigan) may challenge Herger for the ranking minority post on the full committee. In the 110th Congress, Herger was ranking member of the Trade Subcommittee, a position he also may hold in the new Congress.

Other noteworthy Republican departures from the Ways and Means Committee include Rep. Phil English (R., Pennsylvania) and Rep. Jon Porter (R., Nevada).

Despite becoming embroiled in an ethics controversy, Ways and Means Committee Chairman Charles Rangel (D., New York) easily won re-election. It is unclear how the scandal will affect his continuation as Ways and Means Committee chair next year. ♦



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Mark Borthwick
Director

Barbara Wanner
Senior Projects Coordinator