

U.S. Asia Pacific Council

# Washington Report

## Engaging India In A Global Partnership

Amb. Karl F. Inderfurth

*President Obama's visit to India November 6–9 was aimed at boosting economic and commercial ties as well as deepening a bond with a democratic ally that is of growing strategic importance in Asia. On balance, most observers say the U.S. leader laid the groundwork toward accomplishing these broad objectives. However, the two nations will continue to face domestic and regional challenges as they endeavor to forge closer ties on a wide range of economic, diplomatic, security, and environmental issues. Amb. Karl F. Inderfurth of The George Washington University, who previously served as Assistant Secretary of State for South Asian Affairs, explores the backdrop for U.S.-India relations at this important juncture in their development and considers how thornier matters might be tackled moving forward.*

**USAPC:** President Obama's early November visit to India successfully followed up the inaugural meeting in June of the US-India Strategic Dialogue. Most experts have described the United States and India as "natural allies," but not necessary "treaty allies." The conclusion of a formal security alliance does not appear to be on the horizon. Would you please explain why this is the case?

**Inderfurth:** Former Indian Prime Minister Atal Bihari Vajpayee, who governed from 1998 to 2004, first expressed the view that the United States and India are "natural allies." I think that still best captures where we are heading in this relationship.

A formal treaty with India would not be appropriate. Such an arrangement reflects old thinking rather than new thinking about relationships in the 21st century. We want to continue to join forces with India in various undertakings, but these activities do not require conclusion of a formal alliance.

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## KORUS Setback Clouds 2011 Trade Agenda Favorable To US-Asia Engagement

Anticipating a shift in political fortunes favorable to their party in the 112th Congress, Rep. Dave Camp (R., Michigan), the likely chairman of the House Ways and Means Committee, and Rep. Kevin Brady (R., Texas), the anticipated head of the House Ways and Means Trade Subcommittee, in the run-up to the November 2 elections both voiced strong support for initiatives aimed at deepening U.S.-Asia trade and economic engagement.

Specifically, they called for a re-vigorated trade agenda featuring (1) timely approval of the U.S.-Korea Free Trade Agreement (KORUS), (2) conclusion of the Trans-Pacific Partnership Agreement (TPP) by the November 2011 meeting of the Asia-Pacific Economic Cooperation (APEC) forum, (3) renewal of presidential fast-track negotiating authority, and (3) continued active US participation in APEC. Neither lawmaker favored further action—either in the lame-duck session or during the 112th Congress—on a bill passed by the House on September 29 aimed at forcing China to reform its currency policy.

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

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## Inderfurth Interview

In particular, we want to assist and support India in becoming a full stakeholder in the international community. This would entail India joining all of the key organizations and groupings that will be making decisions about the broad array of challenges confronting us in the years ahead.

And indeed, India has been demonstrating its interest in taking an active part in global affairs by participating in the G-20, which has replaced the G-8 as the principal international economic forum. In addition, India was a key player at the UN Climate Change Conference in Copenhagen in December 2009 along with the United States and China.

New Delhi also took part in the international nuclear summit hosted by President Obama this past April. Before the conclusion of the US-India Civil Nuclear Cooperation Agreement in 2007, we probably would not have seen India take part in that kind of summit. Now it is becoming an integral part of the global nonproliferation mainstream.

Many of us believe strongly that India should be made a permanent member of the UN Security Council. I was therefore delighted that President Obama used the occasion of his speech to the Indian parliament to endorse the elevation of India's status in the United Nations. As the president suggested in his remarks, the time is ripe for this change, which is consistent with our desire to see India become a full stakeholder in the international community. It also would reflect more properly the power realities of the 21st century.

So these are the ways we should be looking to engage India—not within the structure of a formal alliance, but within various

international forums where it would have a seat at the table along with the United States and other key international actors.

**USAPC:** With respect to a permanent seat for India on the UN Security Council, how might that affect US relations with India within the United Nations, which have not always been harmonious?

**Inderfurth:** The United States and India sometimes have traveled a rocky road in the United Nations. Much of that friction traces back to Cold War days when India pursued a foreign policy that had not yet evolved to its current approach, which is more internationalist and favors engagement with major parties. Just as our foreign policy has evolved since the end of the Cold War, so has India's.

The very good news is that the United States and India increasingly have been moving closer to each other within the United Nations. This convergence will be apparent both within the Security Council—India recently was elected to a non-permanent Security Council seat—but also within the

General Assembly. In reality, most of our disagreements have occurred in the General Assembly.

There will continue to be differences between the two countries largely because neither country will behave as the junior partner to the other. But I think that by working together in the Security Council—hopefully one day with India as a permanent member—we will grow closer in our approach to international issues. I am convinced that the United States will have far more to gain with India as a permanent member of the Security Council than any costs involved in the occasional times that we may part ways.

**USAPC:** How would India's status as a permanent member of the Security Council possibly influence Asian regional dynamics, particularly its relationship with China?

**Inderfurth:** One of the most interesting developments of the early years of the 21st century has been the rise of both India and China as the two great mainland Asian powers, both of which have global reach and aspirations. These two countries will make a major contribution to Asia if they are part of a regional balance of power and can work together on the Security Council.

In fact, having both of these rising global powers on the Security Council actually will enhance the work of the Council and make it more legitimate in the eyes of overall UN membership. India's participation on the Security Council therefore will contribute quite positively to the Asian region.

**USAPC:** What more could the Obama administration do to dispel lingering skepticism in India about its strategy to withdraw from Afghanistan?

**Inderfurth** It is very important for the United States and India to continue to have in-depth consultations about Afghanistan and its future and what the two countries can do individually and together to assist Afghanistan in becoming a stable, secure, and prosperous country. India already has made valuable contributions to Afghanistan's development and hopefully can do more over time.

The United States needs to assure India and others in the region that we have a long-term commitment to Afghanistan. Right now we are in the midst of a troop build-up in response to a very strong and resilient insurgency. This is a difficult period. But we are going to have to work through this because without some success in the security area, it will be very difficult for the economic development, infrastructural improvements, and other things that the Afghan state needs to take root.

So the United States needs to assure India and others that we will stay with the task of building up the Afghan security forces so they can take over the responsibility of providing

security throughout the country. This will take some time.

In December 2009, President Obama delivered a major address on the U.S. role in Afghanistan, in which he set July 2011 as a date to begin pulling U.S. forces out of the country. But what the President was talking about is the beginning of the transition to the Afghan security forces, not a withdrawal of American forces *en masse*. It will take some time to realize a complete pull out of U.S. forces. Afghan President Hamid Karzai himself has suggested that the security transition may not be complete until 2014.

The concerns of many in the region about the US

commitment to Afghanistan

stems from post-1989

developments there. The Soviet Union was defeated following nine years of war and withdrew its troops. The international community also departed. This left

Afghanistan and Pakistan to sort through the subsequent chaos and instability. The United States must reassure both India and Pakistan that that experience will not be repeated.

**USAPC:** India historically has sought to foster a stable Afghanistan. How might the United States support and encourage this without antagonizing Pakistan?

**Inderfurth:** As I say above, we always must bear in mind that the Pakistanis are very concerned that Afghanistan will return to the kind of chaos and anarchy they witnessed following the Soviet-Afghan war—upheaval that affected their country's own stability.

In that regard, it would be very helpful if India and Pakistan would talk directly to each other about their security needs and their suspicions of each other. The most appropriate role for the United States would be to encourage that kind of dialogue. But India and Pakistan themselves must conduct these discussions.

Personally, I believe there is a great deal of misunderstanding and exaggeration in Pakistan about India's role in Afghanistan. But as long as that is Pakistan's perception, that will be its reality. I believe the most successful way to correct these misunderstandings is for the two countries to address them directly.

**USAPC:** Earlier, you mentioned the US-India Civil Nuclear Cooperation agreement, which many experts regard as a landmark achievement in US-India relations. But implementation has stalled owing to Indian laws that would make US equipment suppliers potentially liable for any problems that might arise. There did not appear to be any progress on this issue during President Obama's trip. Where do we go from here?

**Inderfurth:** India recently took an important step in

un-stalling the agreement by adding its signature to the Convention on Supplementary Compensation in Vienna. President Obama also was told in Delhi that India is committed to ensuring a level playing field for US companies that want to enter the Indian nuclear energy sector.

So let's see how this all plays out. Both sides demonstrated the will to conclude the civil nuclear agreement. Now they must find the way to get it fully implemented. They can.

**USAPC:** President Obama's visit held great promise for both military- and non-military-related sales. But there are regulatory impediments in both countries that limit both of our abilities to realize the full potential of the bilateral commercial relationship.

Would it be appropriate now for U.S. and India to initiate their own version of a Strategic and Economic Dialogue, modeled after the U.S.-China initiative, as a way of giving further impetus to reforms on both

sides?

**Inderfurth:** There is no doubt that a major foundation of a new relationship with India will be in the economic and defense areas. There wasn't much dynamism in those areas before US-India relations underwent its transformation first under President Clinton, then accelerating under President Bush, and now continuing under President Obama.

We've come a long way in a short period of time. But the fact remains that we still have a great deal of unrealized potential in bilateral economic and defense relations, and the only way to unlock that is for both countries to get their own houses in order.

I am very pleased that the Obama administration under Secretary of Defense Gates launched a comprehensive review of US export controls—a review that will do more than simply chip away at some of the barnacles that have developed over time.

Importantly, this review has been examining closely the so-called Entities List. This is a list of foreign businesses, research institutions, government and private organizations, and individuals that are subject to a number of restrictions relating to export and transfer of dual-use, usually high-technology items.

The fact that various Indian “entities” have been on this list has been a bone of contention with New Delhi. So the announcement during the President's visit that the United States was removing virtually all Indian “entities” from this list, including the Indian Space and Research Organization (ISRO), was very well received.

This was a step in the right direction aimed at realizing our  
*continued on page four*

## Inderfurth Interview

full potential economically as well as militarily. I think that India also should be looking for additional ways that it can remove impediments to our economic and defense ties. In short, both countries need to step on the accelerator.

**USAPC:** You spoke earlier about the importance of India's presence in global organizations. How about in the World Trade Organization (WTO)? The sharp disagreements between the United States and India about liberalizing trade in agriculture were in part responsible for the collapse of the WTO's Doha Round two years ago. Is New Delhi ready to assume a leadership role in an entity devoted to expanding a liberal global trading system?

**Inderfurth:** At this point, reviving the Doha Round probably is not realistic. I participated in the study group that contributed to the Center for New American Security's report, *Natural Allies: A Blueprint for the Future of U.S.-India Relations*. The study group supported the notion that the United States and India might present to WTO members a package of proposals for concluding the Doha Round.

Alternatively, the two countries might propose measures aimed at launching a post-Doha initiative that would move the WTO-based trading

system forward. In addition, the United States and India could build support for the global trading order by concluding a long-delayed Bilateral Investment Treaty (BIT).

But at the same time, we must recognize that just as the United States will put its economic self-interests first in multilateral negotiations, so will other countries, including India.

India has its own particular set of economic imperatives and, like the United States, is also a democratic society that must take into account its very strong and active parliament. Trade liberalization must be worked through a broader democratic process, which will require tenacity. But I think the BIT would be a very forward-looking place to start.

**USAPC:** In what ways can the two countries develop a more global partnership and improve cooperation and coordination on issues beyond those that directly affect South Asia?

**Inderfurth:** There are many ways, but one to which I am particularly attracted involves cooperation in protecting the "global commons." This is an idea whose time is rapidly approaching. It would involve the United States working with other countries, in this case India, to pursue, secure, and enhance our global commons—a term that refers to the sea, the air, space, and cyberspace domains.

Maritime security and the rule of law increasingly are vital

to all of our countries' interests. Just look at the piracy taking place off the coast of Somalia. More and more, we see challenges to transit and disputes in various maritime locations. We should be working closely with New Delhi on this precisely because as a democratic society, India naturally supports efforts to uphold transparency and the rule of law.

We also should be working closely with India on space cooperation. The US space program is in a period of reevaluation, while India's space program is on the rise. Actually, we already are cooperating in this area in that India's recent successful unmanned lunar mission included two NASA payloads.

But in addition to cooperating in space exploration, we could join forces with respect to launch vehicles and some technical areas, such as global mapping, which will play a major role with respect to climate change. I also would like to see the two countries cooperate on space governance issues.

The protection of cyberspace increasingly is one of the most important national security issues facing all countries. India and the United States would have a particular advantage working together on cyberspace security because we both are strongly oriented toward information technology.

We both have our Silicon Valleys and we both have very bright and intelligent people working on cyberspace security. So we definitely should be considering how best to collaborate in that part of the global commons, both for the enhancement and spread of information technology, but also for the security of these methods of transmission.

So, as we look to the 21st century, I think it would be tremendously beneficial and appropriate for the United States and India to become partners in the pursuit of a secure and stable environment for all domains related to the global commons. ♦

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# Other Committee Changes May Affect Asia Policy Agenda

As explored in the article that begins on page one, the Republican sweep that elevated Representatives Dave Camp (R., Michigan) and Kevin Brady (R., Texas) to chairman of the House Ways and Means Committee and chairman of the House Ways and Means Trade Subcommittee, respectively, likely will affect the outlook for various initiatives aimed at expanding US economic engagement with the nations of the Asia-Pacific region.

The following changes to House and Senate committees with jurisdiction over economic, political, and diplomatic issues important to US-Asia relations also warrant close watch:

**House Appropriations**—At press time, Rep. Jerry Lewis (R., California), current ranking member, appeared poised to assume the full committee chair in the 112th Congress. Rep. Kay Granger (R., Texas) probably will chair the Subcommittee on State and Foreign Operations.

In addition, on November 5, Lewis made clear his intention to add more fiscally conservative members to fill open committee seats, most notably, Rep. Jeff Flake (R., Arizona). If Flake secures a seat on this committee, he likely would work closely with Granger to trim funding for various State Department and foreign aid programs they regard as duplicative or excessive. Granger, in particular, appears to

favor shifting resources from diplomacy and development to defense.

**Senate Appropriations**—Senators Daniel K. Inouye (D., Hawaii) and Thad Cochran (R., Mississippi) will continue to serve as chairman and ranking member, respectively. They both attended the recent APEC meetings in Yokohama, Japan, which may affect their views about providing resources to enable US engagement in Asia.

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Ros-Lehtinen likely will pursue a tough line toward Burma, China, North Korea and other Asian nations who do not uphold appropriate human rights standards

Cochran's APEC attendance is even more significant because he will play a key role, along with Senate Minority Leader Mitch McConnell (R., Kentucky), in selecting five new members for the Subcommittee on State and Foreign Operations to replace those who retired or were defeated.

Senator Patrick Leahy (D., Vermont) likely will continue to chair this subcommittee; McConnell is in line to become ranking member if he chooses.

**House Foreign Affairs**—Rep. Ileana Ros-Lehtinen (R., Florida) is poised to assume this chair. Ros-Lehtinen has been a very vocal critic of regimes that abuse human rights. This suggests that she likely will pursue a tough line toward Burma, China, North Korea, and other Asian nations that do not uphold what she would regard as appropriate human rights standards.

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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 US-Asia Pacific relations. This issue focuses on pertinent personnel from the U.S. Defense Department.

**MAILING ADDRESS:**  
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### ASIAN AND PACIFIC SECURITY AFFAIRS:

**Wallace Chip Gregson, Jr.**—Assistant Secretary for Asian and Pacific Security Affairs, Pentagon 5D652, 703.695.4175  
**Derek Mitchell**—Principal Deputy Assistant Secretary for Asian and Pacific Security Affairs, Pentagon 5D652, 703.695.6495

**David S. Sedney**—Deputy Assistant Secretary for Afghanistan, Pakistan, and Central Asia, Pentagon 5C718, 703. 614.5411

**Craig Mullaney**—Principal Director for Afghanistan, Pakistan, and

Central Asia, Pentagon 5C718, 703.697.7348

**Robert M. Scher**—Deputy Assistant Secretary for South and Southeast Asia, Pentagon 5D652, 703.695.6495

**BGen William Crowe, USMC**—Principal Director for South and Southeast Asia, Pentagon 5D652, 703. 695.5504

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

**Mary Beth Morgan**—Director for Southeast Asia, Pentagon 5D652, 703.697.0398

**Rolf M. Michael Schiffer**—Deputy Assistant Secretary for East Asia, Pentagon, 5D652, 703.697.7207

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

**David Helvey**—Director for China, Hong Kong, Mongolia, Taiwan, Pentagon 5D652, 703.695.8270

**Christopher Johnstone**—Director for Japan, Pentagon 5D652, 703.614.2247

**Brian Arakelian**—Senior Country Officer for Korea, Pentagon 5D652, 703.697.7207

## Committee Changes And Asia Policy

In addition, observers anticipate that the new House Foreign Affairs Committee chair will hold hearings aimed at evaluating the Obama administration's policy toward North Korea. To date, she has argued that tougher sanctions toward Pyongyang are in order. In anticipation of the report by the UN Security Council concerning North Korea's proliferation of nuclear and missile technology to Iran, Syria, and Burma, Ros-Lehtinen declared that the White House should discontinue its "failed strategy of seeking to engage the regime in endless negotiation . . . and [instead] ratchet up pressure on Pyongyang."

On other policy matters relevant to Asia, Ros-Lehtinen likely will call for cutbacks in foreign aid spending. In addition, she has indicated she does not favor pursuing negotiations with Vietnam on a civil nuclear agreement.

Rep. Don Manzullo (R., Illinois) has expressed interest in assuming leadership of the Subcommittee on Asia, the Pacific, and the Global Environment. Manzullo, who currently is ranking member on this panel, supports healthy US political

and economic relations with the nations of the Asia-Pacific region and sees the value of continued US engagement through institutions like APEC.

Also of note, he has actively encouraged and attracted Asian investment to his district, which in one instance has created some 300 new jobs. He therefore likely would oppose Asia-targeted protectionist initiatives or policies that risked hampering US diplomacy in the region.

**Senate Foreign Relations**—Senators John Kerry (D., Massachusetts) and Richard Lugar (R., Indiana) will continue to serve as chairman and ranking member, respectively. Along with Sen. Jim Webb (D., Virginia), who likely will continue to lead the Subcommittee on Asian and Pacific Affairs, they have worked in a bipartisan manner to promote policies to ensure continued, strong US engagement in the Asia-Pacific region, initiatives that hold China accountable for unfair economic or provocative diplomatic or military actions, protections for human rights, and solutions to the North Korean conundrum, among other issues. That cooperation no

## CONGRESSIONAL WATCH

**US-ASEAN Relations**—On September 23, the Senate unanimously passed a non-binding resolution supporting recent and ongoing US efforts to engage with the Association of Southeast Asian Nations (ASEAN) and its 10 member nations. This action corresponded with the second US-ASEAN summit held in New York City on September 24. The resolution formally recognized the centrality of ASEAN to regional cooperation and problem-solving in the Asia Pacific, among other provisions.

**US-Australia Defense Trade Cooperation Treaty**—On September 21, the Senate Foreign Relations Committee approved by voice vote a resolution of ratification for a US-Australia Defense Cooperation Trade Treaty. The treaty aims to make cooperation between the two close allies "more streamlined, efficient, and effective by removing unnecessary bureaucratic delays,"

according to Committee Chairman John Kerry (D., Massachusetts). It is unclear whether the Senate will have time to approve the treaty and implementing legislation during the lame-duck session.

**Cambodia's Debt to the United States**—Hon. Eni Faleomavaega (D., American Samoa) suggested at a hearing on September 30 that he would introduce legislation aimed at forgiving the more than \$400 million of debt Cambodia owes to the United States. This debt was incurred during the Lon Nol regime in the early 1970s. Joseph Yun, Deputy Assistant Secretary of State for Southeast Asia and ASEAN Affairs, acknowledged that Cambodia's debt remains an irritant to bilateral affairs and hampers Cambodia's own economic development. However, Yun was firm that Cambodia must begin servicing its debt before the United States can consider converting the debt to development assistance as

Phnom Penh has urged. Secretary of State Hillary R. Clinton said on November 1 that Washington would send a team to resume talks with the Cambodian government over the issue. Faleomavaega may hold off in introducing the bill pending the outcome of these discussions.

**Abduction to and Retention of US Citizen Children in Japan**—On September 29 the US House of Representatives passed a non-binding resolution. It calls on the Government of Japan to address the "urgent problem of abduction to and retention of US citizen children in Japan," and adopt "without delay" the 1980 Hague Convention on the Civil Aspects of International Child Abduction. On October 27, Secretary Clinton confirmed that she, indeed, had raised the matter with Japanese Foreign Minister Seiji Maehara during bilateral discussions in Honolulu, Hawaii. Maehara said that Tokyo is taking steps toward ratifying the

aforementioned Hague Convention and enhancing parents' basic visitation rights. "I am encouraged by this progress," Secretary Clinton said.

### North Korea Sanctions Implementation

Sen. Richard Lugar (R., Indiana), ranking member of the Senate Foreign Relations Committee, released October 22 a report prepared for him by the Congressional Research Service. It details the extent to which implementation of United Nations sanctions against North Korea for its nuclear ambitions and provocative actions has not been even globally. In particular, the report examines the impact of China's "minimalist approach" to implementing sanctions against North Korea. [This report](#) likely will serve as background for continued congressional oversight of U.S. policy toward North Korea during the 112th Congress.

### PACIFIC ECONOMIC COOPERATION COUNCIL (PECC):

#### 19th PECC General Meeting—

More than 300 opinion leaders and economic experts attended PECC's 19th General Meeting, which was hosted by the Japan National Committee on Pacific Economic Cooperation on October 21–22 in Tokyo, Japan. They urged the nations of the Asia-Pacific to pursue (1) structural reforms aimed at encouraging savings in deficit countries and stimulating consumption in surplus countries; (2) continued efforts to promote regional integration through multiple tracks; and (3) continued development of social safety nets. [Click here for details.](#)

**PECC Statement to 22nd APEC Ministerial—**[PECC's statement to APEC ministers](#) expressed the concern of General Meeting participants that timely implementation of structural reforms is imperative to prevent the re-emergence of unsustainable imbalances.

### PECC 2010 State of the Region Report

[This year's report](#), unveiled by PECC Co-Chairs Charles E. Morrison and Jusuf Wanandi just prior to the G20 and APEC Leaders' Meetings, included a warning to policymakers that the biggest challenge to implementing structural reforms needed to rebalance regional growth is entrenched interests who oppose change.

#### KEY MEETINGS: NOVEMBER—DECEMBER 2010:

- US Secretary of State Hillary R. Clinton met with her counterparts and heads of state during the latter half of a tour of Asia, which included stops in Malaysia, Papua New Guinea, New Zealand, and Australia, November 1–8.
- US Treasury Secretary Timothy Geithner attended the APEC Finance Ministers' meeting, Kyoto, Japan, November 5–6.
- President Obama held bilateral meetings with Indian Prime Minister Manmohan Singh, New Delhi, November 8, and

Indonesian President Susilo Bambang Yudhoyono, Jakarta, November 9.

- US Trade Representative Ron Kirk, US Secretary of Commerce Gary Locke, and US Deputy Secretary of State James Steinberg represented the United States at the 22nd APEC Ministerial, Yokohama, Japan, November 10–11.
- President Obama held bilateral meetings with South Korean President Lee Myung-bak and Chinese President Hu Jintao, Seoul, South Korea, November 11.
- President Obama joined leaders from the G-20 nations in summit discussions, Seoul, South Korea, November 12.
- Senators Daniel Inouye (D., Hawaii) and Thad Cochran (R., Mississippi), chairman and ranking member, respectively, of the Senate Appropriations Committee, and Rep. Kevin Brady (R., Texas), the likely new chairman of the House Ways and Means Trade Subcommittee, led a delegation of US lawmakers to observe the APEC Ministerial and Leaders' Meeting, Yokohama, Japan, November 10–14.
- President Obama held bilateral meetings with Japanese Prime Minister Naoto Kan and Australian Prime Minister Julia Gillard, and joined leaders of the 21 member economies of APEC for the 18th annual APEC Leaders' meeting, Yokohama, Japan, November 13.
- President Obama held a bilateral meeting with Russian President Dmitry Medvedev, Yokohama, Japan, November 14.
- Amb. Kurt Tong, US Senior Official to APEC, and Ms. Wendy Cutler, Assistant US Trade Representative for Japan, Korea, and APEC Affairs, will attend the Informal Senior Officials Meeting, which will begin to develop the agenda for APEC 2011, Honolulu, Hawaii, December 9.

doubt will continue.

Importantly, these three lawmakers have suggested they will continue to use the committee's broad jurisdiction over U.S.-Asia policy to advocate timely approval of the US-Korea Free Trade Agreement (KORUS). In May, Kerry, Lugar, and Webb co-signed a letter to President Obama calling for timely resolution of issues holding up the submission of KORUS implementing legislation to Congress (see article on page one).

They argued that interested parties should not lose sight of the strategic importance of the accord. It is in the "best economic and strategic interest" of the United States to strengthen ties with allies like South Korea, the lawmakers maintained. Upon learning about the breakdown KORUS negotiations on November 11, Kerry urged both sides to hunker down and reach a timely resolution of outstanding issues and declared that "bipartisan cooperation on KORUS is attainable in the next Congress" notwithstanding the "polarized political environment."♦

Another important player on the committee probably will be Sen. Jim DeMint (R., South Carolina). DeMint's political stature within the Republican party appears to have been strengthened owing to the victories of many of the conservative candidates he actively supported in both House and Senate races during the mid-term elections. He may use that power to advocate an approach to issues in US-Asia relations that may not comport entirely with that of Senators Kerry and Lugar.

Specifically, DeMint in the past has joined forces with Sen. Tom Coburn (R., Oklahoma), a fiscal hawk, in promoting cutbacks in foreign aid funding and other State Department programs. His previous record also suggests that he will advocate a tougher response to the constraint of religious freedoms in China and other Asia nations. His beneficiaries in both houses—many of whom have no previous experience in or deep familiarity with foreign policy or international economic issues—no doubt will follow his lead. This could affect floor action on legislation reported by relevant committees.♦

## Republican Trade Agenda in 2011

**KORUS Setback**—The big question, however, is whether US and South Korean trade negotiators can resolve in the coming weeks—ideally before the 112th Congress convenes in January 2011—the sticking points that have stalled congressional approval of KORUS for the past three years. These concern (1) Korean regulatory and tax policies that impede US auto imports and (2) Korean barriers to US beef imports.

Despite the tireless efforts of negotiators, President Obama and South Korean President Lee Myung-bak failed to find common ground on these issues when they met on November 11 in Seoul on the sidelines of the G-20 meeting. Unless

the two sides can conclude a deal soon, the prospects for the White House's more forward-looking trade policy, the centerpiece of which is a goal to double US exports in five years, will dim considerably. It is unfortunate that this setback has occurred just prior to a shift in party control in the House that likely would improve the prospects for timely KORUS ratification.

**House Republican Trade Agenda**—Camp and Brady, in fact, have urged timely approval of KORUS and other pending free trade agreements (FTA) with Colombia and Panama, arguing that these will do much to create new jobs for Ameri-

## REGULATORY UPDATE

In addition to pressing China to reform its currency policy, the Obama administration has taken the following regulatory actions aimed at redressing alleged Chinese unfair trading practices:

**China 301 Case and Rare Earth Mineral Export Controls**—On October 15, U.S. Trade Representative Ron Kirk announced that the United States has initiated an investigation under Section 301 of the Trade Act of 1974 of alleged subsidies and other support provided by the Government of China to its domestic “green technologies” industries. The investigation was initiated in response to a petition filed by the United Steelworkers (USW) on September 9.

The USW petition alleges that China employs export restraints on rare earth minerals needed for making green energy products, such as solar panels, wind turbines, and advanced batteries. It also alleges that China provides WTO-prohibited subsidies, discriminates against foreign companies and imported goods, and requires advanced technology transfers. All of these actions, according to the USW, “cause serious prejudice to U.S. interests.”

Under Section 301, USTR may take as long as 90 days to thoroughly examine and verify the USW's

claims. It then must request formal consultations with the Chinese government. If after 60 days of discussions the United States and China are unable to resolve the dispute, USTR must request the formation of a WTO dispute resolution panel to hear the case.

On October 18, Beijing appeared to respond in-kind by imposing restrictions on the export of rare earth minerals to the United States. In addition to their use in “green energy” products, these minerals are key elements in advanced technology products ranging from cell phones to missiles.

China currently produces 95 percent of the world's rare earths. In recent months, Beijing has sought to use this monopoly as leverage on sensitive political issues. On September 21, for example, China blocked rare earth mineral shipments in Japan in connection with a dispute between the two countries over an island chain in the East China Sea.

China abruptly ended its unofficial export embargo on October 28, shortly after Washington announced that Secretary of State Clinton would make a special visit to China's Hainan Island to discuss the matter further with Chinese State Councilor Dai Bingguo. Nevertheless, China's provocative behavior and the U.S. dependence

on imported rare earth minerals likely will be examined more closely by the 112th Congress.

### **Flat-Rolled Electrical Steel and Electronic Payment Services**

USTR filed two cases against China at the WTO on September 15. One case requests dispute settlement consultations regarding China's imposition of antidumping and countervailing duties on US imports of grain-oriented flat-rolled electrical steel. The other case requests consultations regarding China's discrimination against US credit and debit card companies that want to participate in China's electronic payments market. Both actions potentially could result in WTO rulings against China.

**Aluminum Extrusions (CVD)**—On August 31, the US Commerce Department reached a preliminary determination that Chinese producers/exporters of aluminum extrusions have received illegal subsidies ranging from 6 to 138 percent. As a result, Chinese importers were required to post cash or bonds based on these preliminary rates. At press time, Commerce was expected to make its final determination. If the US International Trade Commission (USITC) follows suit and finds that these imports injured US industry, Commerce will issue a countervailing duty (CVD) order. The USITC decision is expected on

or before December 30.

An important aspect of this case involved allegations that China's currency policies constituted an unfair subsidy under US CVD law. Commerce found that the case failed to meet the requirements for the initiation of a CVD case. That determination helped to give additional impetus to legislation that passed the House of Representatives on September 29. The bill clarifies that currency misalignment is actionable under U.S. antidumping and CVD laws (see above article).

### **Aluminum Extrusions (AD)**

The second of US industry's one-two punches landed on October 28 when Commerce reached a preliminary determination that Chinese producers/exporters of aluminum extrusions sold their products at a margin of 59.31 percent. Chinese importers now must post cash or bonds equal to the weighted-average dumping margins, adjusted for export subsidies, as appropriate, found in the companion CVD investigation. Commerce will make its final determination in January 2011. If the final decision is affirmative and the USITC also finds that these imports injured US industry, Commerce will issue an AD order. The USITC decision is expected February 24, 2011.

cans. Citing the conclusion on October 6 of the EU-Korea free trade agreement, in particular, the Ways and Means Republicans have warned that further delay on KORUS will place U.S. business and workers at a competitive disadvantage. “South Korea is a key security and trading partner to the United States and a gateway to the Asia-Pacific region for American products and services. Congress has ignored this important agreement for over three years and now the Europeans are threatening to leave us behind,” Brady has charged.

By the same token, Brady has been firm that the questions concerning US access to Korean auto and beef markets must be addressed satisfactorily or the agreement still will not garner sufficient support on Capitol Hill—regardless of which party controls the House.

Senate Finance Committee Chairman Max Baucus (D., Montana), who will continue to play a key role in shepherding KORUS implementing legislation through the upper chamber, expressed disappointment November 11 about the setback. “[KORUS] has the potential to increase American exports and create American jobs,” he said. Nevertheless, Baucus also has insisted that Washington and Seoul resolve these issues before his panel will take up the bill.

**TPP and Fast-Track Negotiating Authority**—If US and South Korean negotiators can strike a deal in the coming weeks, the Obama administration will find the Republican-controlled House is a “willing partner,” in Congressman Brady’s words, in advancing a trade agenda that features US-Asia engagement.

Brady said October 25 that as Trade Subcommittee chairman, he would hold hearings on the TPP soon after the 112th Congress convenes. He regards the accord, which currently includes Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam, as a vehicle that will enable the United States to deepen and broaden economic ties with the Asia-Pacific region and “establish the United States as an effective counterweight to China.”

Importantly, Brady shares the Obama administration’s view that the TPP will help to pave the way toward conclusion of a Free Trade Area of the Asia Pacific (FTAAP), which would encompass the 21 APEC member economies. Given its broader significance, the incoming House Trade Subcommittee chairman has advocated concluding the TPP in time for the APEC Leaders’ Meeting in Honolulu, Hawaii on November 12–13, 2011.

Congressman Brady also will pursue renewal of presidential fast-track negotiating authority, known as trade promotion authority (TPA), which expired on July 1, 2007. TPA pro-

vides the US chief executive with authority to negotiate trade agreements, which Congress can approve or disapprove but cannot amend or filibuster. Trade experts maintain that TPA effectively strengthens the hands of US negotiators because they can assure their foreign counterparts that Congress cannot unravel the final agreement.

KORUS was concluded before TPA expired so its implementing legislation will enjoy protection from amendments and/or filibusters. But the final TPP agreement will not enjoy such protection unless TPA is renewed. Brady said he was anxious to begin discussions with House Democrats early in 2011 aimed at developing a TPA renewal bill that would give the White House

“tools to be a salesman for US business and pursue new trade agreements.”

But insiders warn that the entire Camp/Brady pro-Asia trade agenda could be dashed, if Seoul and Washington remain at loggerheads on KORUS for a protracted period.

**APEC**—Regardless of how US-South Korea negotiations proceed, Congressman Brady, who co-chairs the bipartisan House APEC Caucus, has suggested that he will endeavor to further educate Members of Congress about APEC’s work in tackling economic, energy, and security challenges. He attended the APEC meetings in Yokohama, Japan earlier this month for the express purpose of holding face-to-face meetings with Asian ministry officials and business representatives. He told a Washington, D.C. audience on October 25 that he wanted “to make sure the nations of the Asia-Pacific region understand that US lawmakers recognize the need for economic engagement and [participation in Asian regional forums.]”

**China Currency Bill**—Had the Democrats retained control of the House and enjoyed a stronger showing in Senate races, they may have pushed for Senate action during the lame-duck session on the China currency bill that passed by the House on September 29. That bill, “Currency Reform for Fair Trade Act,” would make currency misalignment actionable under US antidumping and countervailing duty laws. In view of the Republican landslide, however, insiders anticipate that lawmakers in both houses instead will limit their lame-duck focus to tax legislation and a bill to extend FY 2010 government spending levels.

Although Rep. Camp voted for the China currency bill, he later said that such legislation is “not on my trade agenda” in 2011. “My focus with regard to China is to more aggressively pursue WTO violations when they occur” he told a business audience on September 29 [see Regulatory Update]. Rep. Brady shares this view. He has argued that currency legislation fails to resolve Beijing’s weak enforcement of intellectual property rights, its pursuit of discriminatory indigenous innovation policies, and its maintenance of various non-tariff barriers. ♦



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