



# Washington REPORT

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

Volume 1 January 2009

## Reflections On U.S. Foreign Aid Reform And Related Developments In Asia

### USAPC Interview with Hon. Jim Kolbe

*During his two terms in office, President Bush sought to overhaul the U.S. system for delivering foreign assistance to support post-9/11 national security and foreign policy goals. Some of the former administration's aid initiatives are highly regarded. But the consensus of a plethora of articles, books, studies, and congressional hearings is that the U.S. foreign aid effort remains badly in need of change. Key U.S. lawmakers say that foreign aid reform will be high on their agenda for 2009.*

*Hon. Jim Kolbe, Senior Fellow at the German Marshall Fund of the United States, offers his views about problems in the U.S. foreign aid system, proposed solutions, and related developments in Asia. Congressman Kolbe served for 20 years on the House Appropriations Committee and chaired the subcommittee with jurisdiction over the U.S. foreign aid budget for four of those years.*

**USAPC: The Bush administration's efforts to reform the U.S. foreign aid system have been both applauded and highly criticized.**

**On the plus side, many aid experts have given high marks to innovations such as the Millennium Challenge Corporation (MCC) and the President's Emergency Program for Aids Relief (PEPFAR). Would you agree that these programs have been well-conceived and should continue?**

**Kolbe:** Yes, the MCC and PEPFAR certainly stand out as part of an outstanding effort on the part of the Bush administration to try innovative mechanisms for

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## Experts Urge Obama, Congress To Resist Protectionism

A blue-ribbon panel of experts issued a report on November 25 that goes to the heart of concerns about the future of trade policy amid economic gloom. Its publication coincided with the transition to a new Congress and a new administration, both of which will have to deal right away with a crisis not experienced by this country possibly since the 1930s.

A headline in *The Washington Post* on December 22, 2008 portrayed a worsening situation: "Trade Barriers Toughen With Global Slump—Despite Free-Market Pledge, Many

Countries Adopt Restrictive Policies." The article detailed recent moves by Indonesia, India, Russia and others to restrict access to their markets in an effort to protect beleaguered domestic interests.

Moreover, the countries took these actions despite their leaders' pledge on November 15 at the Group of 20 (G-20) meeting in Washington, D.C. to refrain from protectionist measures for at least one year.

**Doha Collapse**—The failure on December 12 of members of the

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## Kolbe Interview

delivering foreign assistance. President Bush made very large foreign aid commitments to programs in Afghanistan, Iraq, and Pakistan and other countries as part of the post-9/11 response. But in terms of lasting legacies, the MCC and PEPFAR have been exemplary.

What is interesting about those initiatives is that the Bush administration chose not to launch them within the existing foreign aid structure. My impression is they decided the structure for delivering assistance was broken. When the administration decided it was not possible to get Congress to fix it as they thought it needed to be fixed, they simply went around it by creating new mechanisms.

The advantage of that approach is that the MCC and PEPFAR were radically different structures and proved to be highly successful. But the disadvantage of going outside the existing structure is that it creates a type of Tower of Babel, with one thing piled on top of another so that pretty soon there is a confusing jumble of programs. That's what we have now. But on balance, I would say initiatives like the MCC and PEPFAR certainly have been a "plus."

**USAPC: So however laudable these programs may be, they have complicated coordination and coherence of the U.S. foreign aid system.**

**Kolbe:** Initiatives like the MCC and PEPFAR definitely have complicated coherence and coordination. But I think that was a cost that not only the Bush administration but also Congress decided it was willing to accept in order to make things happen.

**USAPC: Some experts have argued that a key element of any foreign aid reform effort should be the creation of a cabinet-level Department of Development. But you disagree, yes?**

**Kolbe:** I'm not opposed to a Department of Development. But I think that most people who are advocating its creation believe that a cabinet-level agency will take care of the problems plaguing the U.S. foreign aid system. And it simply won't.

You must first resolve a host of other issues, such as what the funding levels should be, how the funds will be administered, how to create accountability, and how to improve coordination. Creating a new bureaucratic layer of Secretary of Development in and of itself will not solve the problems.

**USAPC: In testimony before Congress last year, you proposed that some of the problems might be**

**addressed more effectively by streamlining the system. Please elaborate on that.**

**Kolbe:** What I was suggesting then was that I didn't think it was politically practical to create a cabinet-level Secretary of Development. The energy we would expend creating a Department of Development would be better channeled toward creating more coherence in the aid system.

I think there are a lot of things one can do short of creating a new department that would put programs in the right places in a more orderly fashion, consolidate some of these programs, eliminate others that have no purpose whatever, and make sure we are in the right places and have the right people on the ground.

In this regard, I think it makes sense to bring development assistance administered by the Department of Defense, which constitutes almost a fifth of our total foreign aid, into the State Department.

**USAPC: Some experts contend that China is outpacing the United States in both humanitarian and capital investments. How should the United States respond to the "Chinese challenge" in foreign assistance?**

**Kolbe:** We shouldn't build our aid program or measure it based on what the Chinese are doing. What we should have is a coordinated, cohesive, coherent program that speaks for itself and stands on its own two feet.

People tend to over-state the so-called "Chinese menace" in foreign assistance. Yes, China has aggressive programs in many countries. These generally are oriented toward steel and concrete infrastructure projects. There are such Chinese infrastructure projects in Africa and Southeast Asia. But I think the actual success of Chinese projects in some of those countries is a mixed bag.

By the way, China's involvement in Africa is not new despite all of the hype it has been receiving of late. Its presence in Africa goes back to the time when Taiwan and the People's Republic of China were battling for recognition by the newly independent African countries.

They would each shower goods upon these countries, and for a while, they'd get a country to recognize one of them but the other would provide even more assistance, and the diplomatic recognition would switch to the other side. So China's influence in African development programs goes back many years.

**USAPC: Do you think bilateral cooperation with the Chinese on specific development projects would be worthwhile?**

**Kolbe:** This potentially would be worthwhile, depending on how amenable the Chinese would be to entering into such arrangements with the United States.

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## Committee Assignments: 111th Congress\*

### Senate Appropriations\*\*

Daniel K. Inouye (D., Hawaii) — Chair  
Robert C. Byrd (D., West Virginia)  
Patrick J. Leahy (D., Vermont)  
Tom Harkin (D., Iowa)  
Barbara Mikulski (D., Maryland)  
Herb Kohl (D., Wisconsin)  
Patty Murray (D., Washington)  
Byron Dorgan (D., North Dakota)  
Diane Feinstein (D., California)  
Richard J. Durbin (D., Illinois)  
Tim Johnson (D., South Dakota)  
Mary L. Landrieu (D., Louisiana)  
Jack Reed (D., Rhode Island)  
Frank R. Lautenberg (D., New Jersey)  
Ben Nelson (D., Nebraska)

Thad Cochran (R., Mississippi) – Ranking Minority Member  
Arlen Specter (R., Pennsylvania)  
Christopher S. Bond (R., Missouri)  
Mitch McConnell (R., Kentucky)  
Richard C. Shelby (R., Alabama)  
Judd Gregg (R., New Hampshire)  
Robert F. Bennett (R., Utah)  
Kay Bailey Hutchison (R., Texas)  
Sam Brownback (R., Kansas)  
Lamar Alexander (R., Tennessee)

### House Appropriations

David R. Obey (D., Wisconsin) – Chair  
John P. Murtha (D., Pennsylvania)  
Norman D. Dicks (D., Washington)  
Alan B. Mollohan (D., West Virginia)  
Marcy Kaptur (D., Ohio)  
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James P. Moran (D., Virginia)  
John W. Olver (D., Massachusetts)  
Ed Pastor (D., Arizona)  
David E. Price (D., North Carolina)  
Chet Edwards (D., Texas)  
Robert E. “Bud” Cramer, Jr. (D., Alabama)  
Patrick J. Kennedy (D., Rhode Island)  
Maurice D. Hinchey (D., New York)  
Lucille Roybal-Allard (D., California)  
Sam Farr (D., California)  
Jesse L. Jackson, Jr. (D., Illinois)  
Carolyn C. Kilpatrick (D., Michigan)  
Allen Boyd (D., Florida)  
Chaka Fattah (D., Pennsylvania)  
Steven R. Rothman (D., New Jersey)  
Sanford Bishop (D., Georgia)  
Marion Berry (D., Arkansas)  
Barbara Lee (D., California)  
Adam Schiff (D., California)  
Michael Honda (D., California)  
Betty McCollum (D., Minnesota)  
Steve Israel (D., New York)  
Tim Ryan (D., Ohio)  
C. A. “Dutch” Ruppersberger (D., Maryland)  
Ben Chandler (D., Kentucky)  
Debbie Wasserman Schultz (D., Florida)  
Ciro Rodriguez (D., Texas)  
Lincoln Davis (D., Tennessee)  
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Jerry Lewis (R., California) – Ranking Minority Member  
C.W. Bill Young (R., Florida)  
Ralph Regula (R., Ohio)  
Harold Rogers (R., Kentucky)  
Frank R. Wolf (R., Virginia)  
James T. Walsh (R., New York)  
David L. Hobson (R., Ohio)  
Joe Knollenberg (R., Michigan)  
Jack Kingston (R., Georgia)  
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Todd Tiahrt (R., Kansas)  
Zach Wamp (R., Tennessee)  
Tom Latham (R., Iowa)  
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Jo Ann Emerson (R., Missouri)  
Kay Granger (R., Texas)  
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Roy LaHood (R., Illinois)  
Dave Weldon (R., Florida)  
Michael K. Simpson (R., Idaho)  
John Abney Culberson (R., Texas)  
Mark Steven Kirk (R., Illinois)  
Ander Crenshaw (R., Florida)  
Dennis R. Rehberg (R., Montana)  
John R. Carter (R., Texas)  
Rodney Alexander (R., Louisiana)  
Ken Calvert (R., California)  
Jo Bonner (R., Alabama)

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## Committee Assignments: 111th Congress\*

### Senate Finance\*\*

Max Baucus (D., Montana) – Chair  
John E. Rockefeller, IV (D., West Virginia)  
Kent Conrad (D., North Dakota)  
Jeff Bingaman (D., New Mexico)  
John Kerry (D., Massachusetts)  
Blanche Lincoln (D., Arkansas)  
Ron Wyden (D., Oregon)  
Charles E. Schumer (D., New York)  
Debbie Stabenow (D., Michigan)  
Maria Cantwell (D., Washington)

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Orrin G. Hatch (R., Utah)  
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Jon Kyl (R., Arizona)  
Jim Bunning (R., Kentucky)  
Michael D. Crapo (R., Idaho)  
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John Lewis (D., Georgia)  
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John S. Tanner (D., Tennessee)  
Xavier Becerra (D., California)  
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Earl Pomeroy (D., North Dakota)  
Mike Thompson (D., California)  
John B. Larson (D., Connecticut)  
Earl Blumenauer (D., Oregon)  
Ron Kind (D., Wisconsin)  
Bill Pascrell, Jr. (D., New Jersey)  
Shelley Berkley (D., Nevada)  
Joe Crowley (D., New York)  
Chris Van Hollen (D., Maryland)  
Kendrick Meek (D., Florida)  
Allyson Y. Schwartz (D., Pennsylvania)

Dave Camp (R., Michigan) – Ranking Minority Member  
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Sam Johnson (R., Texas)  
Kevin Brady (R., Texas)  
Paul Ryan (R., Wisconsin)  
Eric Cantor (R., Virginia)  
John Linder (R., Georgia)  
Devin Nunes (R., California)  
Pat Tiberi (R., Ohio)  
Ginny Brown-Waite (R., Florida)  
Geoff Davis (R., Kentucky)  
Dave Reichert (R., Washington)  
Charles Boustany (R., Louisiana)  
Dean Heller (R., Nevada)  
Peter Roskam (R., Illinois)

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## Experts Report

World Trade Organization (WTO) to salvage the so-called Doha Development Round of multilateral trade negotiations—also at odds with the a commitment made by the G-20 leaders—has compounded concerns about the fate of the liberal trading order.

**Obama's Trade Policy?**—Finally, by late December, President-elect Obama had yet to clarify how trade would fit into his economic recovery plan. During the campaign, his message on trade seemed mixed—on the one hand, extolling the benefits of free trade, but on the other hand, denouncing key U.S. trade agreements.

In addition, his selection of former Dallas Mayor Ron

Kirk to serve as the new U.S. Trade Representative left many observers just as unclear about how the next administration will conduct trade policy. Amb.-designate Kirk has been described by close associates as “highly capable and instinctively a free trader.” Nevertheless, his track record on trade as mayor of a major U.S. city is relatively unknown to both U.S. and international trade policy audiences.

**A New Approach to Trade**—The Trade Policy Study Group, chaired by Dr. C. Fred Bergsten, Director of the Peterson Institute for International Economics and a USAPC member, proposes a new way forward for the Obama team and the 111th Congress. The panel's central message: trade is an essential component of the policy response to the global financial and economic crisis, but it

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## Committee Assignments: 111th Congress\*

### Senate Foreign Relations\*\*

John Kerry (D., Massachusetts) – Chair  
Christopher J. Dodd (D., Connecticut)  
Russell D. Feingold (D., Wisconsin)  
Barbara Boxer (D., California)  
Bill Nelson (D., Florida)  
Robert Menendez (D., New Jersey)  
Benjamin L. Cardin (D., Maryland)  
Robert P. Casey, Jr. (D., Pennsylvania)  
Jim Webb (D., Virginia)

Richard G. Lugar (R., Indiana) – Ranking Minority Member  
Bob Corker (R., Tennessee)  
George V. Voinovich (R., Ohio)  
Lisa Murkowski (R., Alaska)  
Jim DeMint (R., South Carolina)  
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### House Foreign Affairs

Howard L. Berman (D., California) – Chair  
Gary L. Ackerman (D., New York)  
Eni F. H. Faleomavaega (D., American Samoa)  
Donald M. Payne (D., New Jersey)  
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Michael E. McMahon (D., New York)  
John S. Tanner (D., Tennessee)  
Gene Green (D., Texas)  
Sheila Jackson Lee (D., California)  
Barbara Lee (D., California)  
Shelley Berkley (D., Nevada)  
Joseph Crowley (D., New York)  
Mike Ross (D., Arkansas)  
Brad Miller (D., North Carolina)  
David Scott (D., Georgia)  
Jim Costa (D., California)  
Keith Ellison (D., Minnesota)  
Gabrielle Giffords (D., Arizona)  
Ron Klein (D., Florida)

Ileana Ros-Lehtinen (R., Florida) – Ranking Minority Member  
Christopher H. Smith (R., New Jersey)  
Dan Burton (R., Indiana)  
Elton Gallegly (R., California)  
Dana Rohrabacher (R., California)  
Donald A. Manzullo (R., Illinois)  
Edward R. Royce (R., California)  
Ron Paul (R., Texas)  
Jeff Flake (R., Arizona)  
Mike Pence (R., Indiana)  
Joe Wilson (R., South Carolina)  
John Boozman (R., Arkansas)  
J. Gresham Barrett (R., South Carolina)  
Connie Mack (R., Florida)  
Jeff Fortenberry (R., Nebraska)  
Michael T. McCaul (R., Texas)  
Ted Poe (R., Texas)  
Bob Inglis (R., South Carolina)  
Gus Bilirakis (R., Florida)

***\*These committees have jurisdiction over most legislation that would affect U.S. economic, political, and cultural relations with the nations of the Asia Pacific.***

***\*\*At press time, membership was not final. This is a tentative list.***

## Experts Report

must be integrated it into a comprehensive national strategy. The panel recommended that the strategy include four key components: (1) a new narrative explaining the role of trade to the U.S. public; (2) a comprehensive competitiveness agenda, some of whose components should be included in the Obama administration's forthcoming fiscal stimulus package; (3) a new adjustment policy to

cushion job losses stemming from economic changes; and (4) new approaches to trade policy itself. "Our hope is that the strategies proposed and developed in this report could adapt U.S. trade policy to the challenges of the 21st century and thus provide a basis for successfully and sustainably pursuing the major policy objectives cited above," the report states.

**New Narrative**—The United States is \$1 trillion per year richer as a result of our trade ties, the report notes, but Americans feel more competitive pressure than at

## Experts Report

any time in decades. Government therefore needs to respond with a mix of policies to “enhance the ability of ordinary Americans to succeed in the global economy.” These policies should aim to (1) strengthen the ability of the United States to compete through various infrastructural improvements; (2) upgrade the educational level and quality of the U.S. work force; (3) overhaul health care, pension, and social insurance policies to ease middle-class anxieties about the implications of job changes; and (4) refocus trade policy to target the largest markets and the emerging industrial and services sectors likely to be central to the U.S. economy in the years to come. The latter, in particular, “would allow the U.S. government to showcase trade expansion as a credible contributor to further growth,” the report states.

**Enhancing U.S. Competitiveness**—The United States needs to increase the quantity and improve the quality of private and public investments in activities that promote productivity gains and the creation of high-skill, high-wage jobs, the study group argues. This would entail increased investment not only in the nation’s physi-

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***The report calls for the creation of a ‘new social contract’ in which our continued openness is supported by much stronger safety nets***

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cal infrastructure, but also in energy and environmental technologies, basic research and development, and education, skill development, and worker training.

The new administration and Congress also must work to reduce the federal budget deficit. The increase in public debt not only has diverted funds from investment in productivity-enhancing activities, but it also helped to create an overvalued dollar, which “is a major negative for U.S. competitiveness and makes it far more difficult to manage an open and constructive trade policy,” the report states.

**Promoting Economic Adjustment**—The report notes that increased domestic and international competition generally benefits the economy through productivity improvements and access to more, cheaper, and better products and services. But this competition also can place significant costs on American workers, firms, and communities—costs that are exacerbated by an obsolete social safety net.

The report therefore calls for the creation of a “new social contract” in which our continued openness in international trade is supported by a much stronger and effective national program of safety nets and empowerment initiatives. This contract would include (1) updating the

woefully outdated unemployment insurance program; (2) expanding the trade adjustment assistance (TAA) program to include service workers; (3) providing wage insurance and the Health Care Tax Credit benefit to all dislocated workers; and (4) providing assistance to communities facing severe job losses, among other elements.

**Trade Policy**—The study group argues that it is imperative for the United States to continue to play a leadership role in international trade negotiations for both economic and foreign policy reasons. Trade supports U.S. economic growth, and good trade deals, “create alliances that encourage our partners to work more closely with us on political as well as economic issues.”

In this regard, the United States must “inject new energy and ambition into the Doha [WTO] process” to ensure the viability of the rules-based multilateral trading system. The report recommends pursuing initiatives aimed at “real cuts” in trade barriers by major emerging market economies (especially China, India, and Brazil) as well as substantial liberalization of global services trade.

The report further urges the new administration and Congress to refocus policy pertaining to Free Trade Agreements (FTA). The previous bilateral FTA approach should evolve into broader regional arrangements. That, in turn, could boost stalled initiatives such as the Free Trade Area of the Americas (FTAA) and give additional impetus to the proposed Free Trade Area of the Asia Pacific (FTAAP), the report proposes.

The report gives special attention to U.S. economic relations with China. It calls upon the Obama administration to devise a strategy aimed at speeding the appreciation of China’s still-undervalued currency. This might include more aggressive use of the International Monetary Fund or WTO rules, the report suggests.

See [www.petersoninstitute.org](http://www.petersoninstitute.org) for the complete “Memo to the President-elect and the 111th Congress.”

**Outlook for Recommendations**—Representatives for the Obama administration and Members of Congress did not comment publicly on the study group’s recommendations. But some lawmakers no doubt reacted quite favorably to some of the proposals primarily because they have been advocating these same policy prescriptions for the past few years.

For example, Senate Finance Committee Chairman Baucus (D., Montana) championed a comprehensive competitiveness agenda in the 110th Congress that included greater focus on education reform, innovation, and R&D, among other elements. Baucus also has been a longtime proponent of expanding and improving the TAA program to address economic dislocation. In addition, leading members of the House and Senate have urged a tougher approach to China’s currency policy, which could entail using WTO countervailing duty rules. This suggests that some of the report recommendations, indeed, could make their way into legislation in 2009. ♦

### **Asia Pacific Economic Cooperation forum (APEC):**

- **APEC Leaders Pledge Decisive Action To Prevent Global Economic Downturn**—Leaders of the 21 APEC members economies meeting in Lima, Peru for the 16 annual summit used uncharacteristically direct language to describe the seriousness of the global economic crisis, describing it as “one of the most serious challenges we have ever faced.” Their declaration, issued on November 23, included a promise to “take all necessary economic and financial measures to resolve the crisis.”

Echoing a statement issued by the Group of 20 major economies on November 15, the APEC leaders pledged to seek a solution to the deadlock in the World Trade Organization (WTO) negotiations. They further agreed not to adopt new trade barriers for at least a year. Also important to regional trade, the leaders agreed to instruct their ministers to conduct further analytical work on the likely economic impact of a Free Trade Area of the Asia Pacific (FTAAP) and to explore capacity-building requirements for possible future negotiations. See [www.apec.org](http://www.apec.org) for the statement.

### **Pacific Economic Cooperation Council (PECC):**

- **PECC’s 2009 Economic Outlook Forecasts Slower Economic Growth**—Economic forecasters from PECC’s panel of 16 Asia Pacific economies anticipate that the economies of the region will grow by only 1.2 percent in 2009. This is less than half the level of growth the region experienced in 2007 and 2008.

PECC unveiled its annual economic outlook on November 19 in Lima, Peru, just days before the annual APEC leaders meeting. The United States will lead this sharp decline in output growth; its economy will contract by around 0.5 percent in 2009, the report states. But PECC’s experts predict that the U.S. economy will rebound in 2010 to 2.4 percent.

Japan’s economy is expected to grow by 0.9 percent in 2009 before also recovering in 2010 to 1.8 percent. And China’s economy will continue to grow by 8–9 percent in 2009 because of stronger domestic demand led by government spending. The experts warn, however, that a decrease of just or two percentage points in GDP growth likely would result in massive job losses there. See [www.pecc.org/sotr](http://www.pecc.org/sotr) for the complete report.

- **PECC’s Survey of Experts Urges Focus On Global Financial Crisis**—Complementing its annual economic outlook, on November 19 PECC also released a survey of 483 opinion leaders from throughout the Asia Pacific, which showed overwhelming concern about the impact of the financial crisis on the Asia Pacific region. Respondents identified the top three risks to growth in the Asia Pacific as (1) the U.S. recession (83 percent), (2) the banking/financial sector crisis (78 percent), and (3) a sharp fall in asset prices (69 percent).

Nearly 80 percent of respondents expect the U.S. economy in to be “much weaker” in the next 12 months, compared to only 12 percent, who felt the same way about the Chinese economy. “Opinion leaders are not as pessimistic about the impact of the crisis on East Asia as they are on the global economic outlook,” said Yuen Pau Woo, coordinator of the survey and president of the Asia Pacific Foundation of Canada. The survey results also may be found at [www.pecc.org/sotr](http://www.pecc.org/sotr).

### **Key Official Meetings: January- February 2009:**

- The first session of the 111th Congress convenes, January 3, Washington, D.C.
- Inauguration of **U.S. President Barack Obama**, January 20, Washington, D.C.
- International business and government leaders will meet in Davos, Switzerland for the World Economic Forum, January 28–February 1.

## USAPC To Host 18th PECC General Meeting

The U.S. Asia Pacific Council will host the 18th General Meeting of the Pacific Economic Cooperation Council (PECC) in conjunction with its annual Washington Conference on May 12–13, 2009. The meeting will be held at the Mayflower Renaissance Hotel in Washington, D.C.

The General Meeting will focus on the global financial crisis, its impact in Asia, and how Asia Pacific cooperation can help to resolve the crisis.

A General Meeting website, which will include information about registration, agendas, speakers, and other details, will be available in February 2009. In the meantime, contact [wannerb@eastwestcenter.org](mailto:wannerb@eastwestcenter.org) for information.

# U.S.-China Issues Will Challenge New Congress, New White House

Former U.S. Treasury Secretary Henry Paulson and Chinese Vice Premier Wang Qishan concluded the fifth and possibly final Strategic Economic Dialogue (SED) on December 5, 2008 in Beijing—a not unimportant event that received little U.S. media attention owing to the heated debate on Capitol Hill about a bail-out package for ailing U.S. automakers.

With the U.S. economy in recession and unemployment on the rise, members of the 111th Congress and the Obama administration initially will be preoccupied with passing legislation aimed at stimulating the economy and creating jobs. But their attention per force will be redirected to challenges in U.S.-China relations because many of these issues may have a direct bearing on initiatives aimed at boosting the U.S. economy.

Thus, while the SED appeared to receive scant attention in December, this biannual, cabinet-level dialogue likely will attract re-newed scrutiny by members of the new executive and legislative branches. They will be considering not only its substantive outcome, but also its utility as a forum to engage China in tackling targeted, politically charged issues as well as broader economic problems and other matters of global importance such as energy use and environmental protection.

**SED Substantive Recap**—Paulson described the two days of meetings as “productive.” He singled out for praise the stimulative measures China has taken in response to the global financial turmoil and economic downturn. The former U.S. Treasury Secretary also lauded China’s decision to further open its financial markets by allowing foreign banks to trade bonds on the same terms as Chinese banks.

In the area of trade and investment, Paulson said both sides “reiterated their commitment to fight protectionism,” and agreed to have their respective Export-Import Banks make available an additional \$20 billion for trade finance, particularly for creditworthy importers in developing countries. He also noted that this SED produced deeper cooperation between the two countries on product safety and food safety protocols.

**Energy and Environment**—Paulson reserved the lion’s share of praise for the SED’s work in developing the Ten Year Framework for Energy and Environment Cooperation (TYF), a “signature accomplishment” launched at the SED meeting in June 2008. At the December SED, the two sides agreed on action plans for each of the five goals under the TYF— (1) clean, efficient, and secure electricity production and transmission, (2) clean water, (3) clean air, (4) clean and efficient transpor-

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## Regulatory Update

**Washington Files WTO Case Against China Over Its ‘Famous Brands’ Program**—Notwithstanding its lame-duck status, the Bush Administration did not let up in its efforts to redress China’s alleged unfair trading practices even as 2008 drew to a close. On December 19, U.S. Trade Representative Susan C. Schwab announced that the United States has requested World Trade Organization (WTO) dispute settlement consultations with China regarding its “famous brands” programs. These programs appear designed to increase sales of Chinese-branded products around the world.

The United States has discovered that China apparently provides numerous WTO-illegal subsidies at multiple levels of government as part of its industrial policy aimed at promoting worldwide recognition of Chinese brand names and products. These include providing exporters (1) cash grant rewards for exporting, (2) preferential loans; (3) research and development funding, and (4) cash grants to lower the cost of export credit insurance. The designated Chinese brands represent a wide range of sectors, including household electronic appliances, textiles and apparel, light manufacturing industries, and agricultural and food products, among others.

“We are going to the WTO today because we are determined to use all resources available to fight industrial policies that aim to unfairly promote Chinese branded products at the expense of American workers . . .” Amb. Schwab said. Under WTO rules, parties that do not resolve a matter through consultations within 60 days may request the establishment of a WTO dispute settlement panel. At press time, U.S. Trade Representative-designate Ron Kirk had not made known his views on this case, but insiders anticipate he will pursue redress.

**WTO Appellate Body Confirms Finding Against China’s Taxation of U.S. Auto Parts**—The WTO Appellate Body confirmed December 15 that China’s discriminatory taxation of U.S. auto parts is inconsistent with Beijing’s WTO obligations. Five months earlier, the WTO dispute settlement panel had found that China’s regulations impose an internal charge on U.S. auto parts resulting in unlawful discrimination under WTO rules. The WTO Dispute Settlement Body will adopt the Appellate Body Report within 30 days. Another 30 days following adoption, China must announce its intentions to bring its tax laws into compliance with its WTO obligations or face a punitive U.S. response.



## U.S.-China Issues

tation, and (5) conservation of forests and wetlands ecosystems—and established a sixth goal of energy efficiency. Furthermore, the United States and China agreed to create seven EcoPartnerships between local governments and between U.S. and Chinese universities and non-profits to enable greater sharing of information and ideas related to attainment of TYF goals. See <http://www.treas.gov/press/releases/hp1317.htm> for a more detailed account of the December SED.

**The SED Process**—In the joint fact sheet issued at the close of the meeting, both sides said they are satisfied with the positive achievements made since the SED process was launched in December 2006. The dialogue was established primarily to address economic and financial matters. It subsequently grew to include examinations of product safety, environmental, and energy issues, which both sides welcomed as important and necessary.

As the brainchild of former Secretary Paulson, it is not surprising that U.S. participants spoke highly of SED process. But Chinese participants also praised the dialogue, calling it an “important platform to enhance mutual strategic trust and strengthen mutually beneficial economic cooperation.”

At press time, the Obama administration had yet to indicate whether it would continue the SED and, in effect, institutionalize it. During the campaign, however, Michael Schiffer, one of then-candidate Obama’s Asia policy advisors, said the president-elect believes that high-level dialogue with China is not only useful and but also essential to enable the development of a “more balanced economic relationship.”

Senator Max Baucus (D., Montana), who will continue as chairman of the Senate Finance Committee in the new Congress, also has endorsed continued high-level dialogue between the United States and China. “At this time of unpredictability in our world, high-level engagement with China must be a constant,” Baucus said on December 5.

**Shortcomings**—By the same token, Baucus and other supporters of high-level dialogue have argued that the SED repeatedly fell short in addressing high-profile, politically sensitive issues. “I urge President-elect Obama to . . . find ways to make the discussions more productive. A better dialogue will be one that can aim for long-term goals while clearing up real irritants that hurt our exporters today,” Baucus said in December.

**Currency Policy**—Chief among these “irritants” is China’s currency policy. Quite a few U.S. lawmakers have criticized the Bush administration for not using the SED process to secure a commitment from China to revalue its currency. Indeed, Paulson’s post-SED remarks refer only to discussions about “the importance of market-deter-

mined currency in promoting balanced growth in China.”

**Unfair Trading Practices**—The “shared commitment to fighting protectionism” included in the SED joint statement also no doubt rang false with Congressional critics in view China’s alleged subsidization of key sectors (see Regulatory Update) and other non-tariff barriers.

**New Approach?**—The Bush administration argued that the SED’s purpose was to enable over-arching discussions of key issues at a very senior level, not to wrangle over currency valuation and trade disputes. In the current economic climate, the Obama team may find that it must use high-level dialogue precisely for such “wrangling.” But the new White House also may want to use such discussions to build upon initiatives like the TYF. ♦

### U.S.-China Economic and Security Review Commission Issues Annual Report to Congress

On November 15, 2008, the U.S.-China Economic and Security Review Commission presented its 2008 annual report to Congress. The 12-member, bipartisan body made 45 policy recommendations to Congress, but singled out 10 “of particular significance” for further action. Some—or all—of the following may inform legislative proposals in 2009:

- Employ World Trade Organization trade remedies more aggressively.
- Respond effectively to China’s currency manipulation.
- Ensure disclosure of foreign state-controlled investments in the United States.
- Monitor reviews of foreign state-controlled investments in the United States.
- Identify substandard shipments of imported fish into the United States.
- Examine the implications of China’s use of media manipulation and “lawfare” for U.S. foreign policy and military activities.
- Ensure adequate funding for programs to monitor and protect critical American computer networks and sensitive information.
- Assess the security and integrity of the supply chain for government and defense contractor computer equipment, and ensure acquisition of equipment from trustworthy sources.
- Press China to reduce tariffs on environmental goods and services.
- Establish a “private right of action” against those suspected of importing products of prison labor.

See [www.uscc.gov](http://www.uscc.gov) for a copy of the 2008 report.

## Kolbe Interview

My impression is that Beijing is showing a new willingness to become more of a development partner of the United States. Chinese representatives now participate in regular country-level meetings, which involve aid officials from several major donor nations who meet for the purpose of coordinating development activities in a particular country.

**USAPC: You have written about the need to complement development policy with a liberal trade policy to better ensure sustainable economic development. But with the collapse of the Doha Round and decline of the global economy more generally, how do we promote that linkage to Members of Congress and our trading partners?**

**Kolbe:** This should be easy, but it isn't. The beneficial link between aid and trade seems obvious on its face. It was interesting that a few weeks ago a majority of Senators and more than one-third of the House of Representatives signed a letter to then President-elect Obama, urging him to proceed with a plan begun under President Bush to double our level of foreign assistance. They took this position even in the face of what obviously is a severe recession.

So there appears to be strong support for expanding our foreign assistance efforts. The trick is to get legislators to understand that without trade, without access to the markets of countries like the United States and Europe, these developing countries won't have the opportunity to grow their economies. As a consequence, the assistance we provide will be largely ineffective. But I haven't figured out the key to making this link obvious.

**USAPC: Related to this, in your congressional testimony you also described challenges the new Congress and new administration likely would face in building U.S. public support for an expanded, albeit revamped foreign assistance program during these trying economic times. You described a country turning inward. How would you advise new Members of Congress to address this issue with their constituents?**

**Kolbe:** One might simply argue that foreign assistance is part of our national security strategy. That certainly was the case when we were fighting a Cold War with the former Soviet Union. But that rationale became a little cloudy and difficult to offer when the Cold War ended.

The September 11 attacks on this country once again made the national security argument a compelling one. Members could argue that our foreign aid programs in

specific countries were part of the broader war against terrorism. But as support for the war in Iraq waned and national anxiety about operations in both Iraq and Afghanistan grew, that argument lost its resonance at the grass roots.

So what is the argument you present to constituents? There are two elements. The first is the "moral argument" that foreign assistance is important because the United States has a moral responsibility to help those in need elsewhere in the world.

The second is that foreign aid continues to be important for reasons related to national security. If the United States provides schools and roads and ways for people to earn their own living, that is to say, provides them with the tools to produce agricultural items or light manufacturing, then that ultimately is in our national interest.

Aid recipients would feel they have hope for a better economic life. But it is not only the donor countries who must act; recipient countries have to be willing to make economic reforms and open their markets. So trade liberalization becomes a piece of this foreign aid package as well.

**USAPC: Of the total aid budget, U.S. foreign assistance to East Asian and Pacific Islands nations ranks fairly low. Bush administration officials have justified the low levels of aid to the Asia Pacific on grounds that this region has faced far fewer problems and challenges than, say, Central Asia, the Middle East, or Africa.**

**Do you think those priorities are appropriate? To "do right" by our friends in Asia, do we simply need a much larger foreign aid budget?**

**Kolbe:** The Bush administration, in fact, increased the overall aid budget dramatically, but that doesn't mean we've been spending it better. Increasing the dollar amount of foreign aid is not the answer. We must ensure that the dollars will be spent wisely and will have a long-term favorable impact.

In that regard, resources devoted to initiatives like the MCC has been money well spent. But in terms of our traditional foreign aid, we still do not have the kinds of programs we need to assess, evaluate, and monitor development assistance, and particularly to watch out for corruption.

I agree that we must establish national security-related priorities. As I said, there are some things we do based on humanitarian concerns. So even if Indonesia, for example, does not rank as high on the list of aid recipients as Afghanistan, if a tsunami hits as it did in 2004 and hundreds of thousands of people are left homeless and suffering, then yes, we can and should respond to that. But there always will be national security concerns, and it simply is unrealistic to suggest that that won't continue to influence the prioritization of our aid budget. ♦



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The United States Asia Pacific Council (USAPC) was founded in April 2003 by the East-West Center (EWC). It is a non-partisan organization composed of prominent American experts and opinion leaders, whose aim is to promote and facilitate greater U.S. engagement with the Asia Pacific region through human networks and institutional partnerships.