INFORMATION RESOURCE CENTER
AMERICAN EMBASSY
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Economic Issues

May 2005

NEWSLETTER NO.46

Government Documents

05AD500 MILLENNIUM CHALLENGE CORPORATION: PROGRESS MADE ON KEY CHALLENGES IN FIRST YEAR OF OPERATIONS.
[GAO-05-625T]
United States Government Accountability Office (GAO). April 27, 2005.

In January 2004 Congress established the Millennium Challenge Corporation (MCC) to administer the Millennium Challenge Account. MCC's mission is to promote economic growth and reduce extreme poverty in developing countries. The legislation requires MCC to rely to the maximum extent possible on quantitative criteria in determining countries' eligibility for assistance. MCC will provide assistance primarily through compacts—agreements with country governments. MCC aims to be one of the top donors in countries with which it signs compacts.
For fiscal years 2004 and 2005, Congress appropriated nearly $2.5 billion for the Millennium Challenge Corporation; for fiscal year 2006, the President is requesting $3 billion. GAO was asked to monitor MCC's (1) process for determining country eligibility, (2) progress in developing compacts, (3) coordination with key stakeholders, and (4) establishment of management structures and accountability mechanisms.
GAO recommends that MCC's Chief Executive Officer continue to develop and implement overall plans and related time frames to establish corporate-wide accountability, internal control, and human capital management. In addition, GAO recommends that MCC's Board of Directors consider, in addition to its statutory responsibilities, other responsibilities associated with sound and effective governance.

http://www.gao.gov/new.items/d05625t.pdf [pdf format, 55 pages]

05AD456 DEFENSE TRADE: ARMS EXPORT CONTROL SYSTEM IN THE POST-9/11 ENVIRONMENT. [GAO-05-234]
United States Government Accountability Office (GAO). February 16, 2005; Web-posted April 7, 2005.

The U.S. government controls arms exports by U.S. companies to ensure that such exports are consistent with national security and foreign policy interests. There have been various efforts to change the arms export control system, which is overseen by the State Department (State).
Since the September 2001 terror attacks, the arms export control system has remained essentially unchanged, although new trends have emerged in the processing of arms export cases. The median processing time for ex-

port license applications and related cases began increasing in fiscal year 2003. State and the Department of Defense (Defense), which reviews export licenses, have continued to implement, through regulations and guidance, several initiatives primarily designed to streamline the processing of arms export licenses. According to State officials, they have not evaluated the effects of these initiatives on the export control system or revised the initiatives. However, applications processed under these initiatives have generally not been processed within the time frames established by State and Defense. For example, applications for Operation Iraqi Freedom are to be processed in 4 days if they require interagency review, but the median processing time for these applications in the first 7 months of fiscal year 2004 was 22 days.
State has sought limited coordination with the agencies responsible for enforcing U.S. arms export laws--the Departments of Homeland Security and Justice--regarding the initiatives designed to streamline arms export licensing. The only exceptions have been regarding proposed export licensing exemptions. Enforcement officials have raised concerns regarding licensing exemptions, including difficulties in enforcing the proper use of exemptions and the increased risk of diversion. According to enforcement officials, they face a number of challenges associated with arms export enforcement efforts, such as limited resources to conduct inspections and investigations and other difficulties in obtaining a criminal conviction for export violations.

http://www.gao.gov/new.items/d05234.pdf [pdf format, 94 pages]

05AD460 U.S.-CHINA TRADE: TEXTILE SAFEGUARD PROCEDURES SHOULD BE IMPROVED. [GAO-05-296] United States Government Accountability Office (GAO). April 4, 2005; Web-posted April 5, 2005.

U.S. textile and apparel imports from China have more than doubled in value since China became a World Trade Organization (WTO) member in December 2001. When joining the WTO, China agreed to a special textile safeguard mechanism applicable only to that country. The China textile safeguard allows WTO members to place defined limits on particular textile and apparel imports from China through the end of 2008, despite the general elimination of most textile quotas on January 1, 2005. In this report, GAO (1) describes the mechanism, (2) describes requests for safeguard action filed by U.S. producers and the results of these requests, and (3) evaluates U.S. agency procedures for transparency and accessibility.
The purpose of the China textile safeguard is to limit surging imports and foster the orderly development of trade in textiles and apparel from China. Safeguards are import restrictions, normally of limited duration and extent, which provide an opportunity for domestic industries to adjust to increasing imports. The China textile safeguard permits WTO members, including the United States, to temporarily restrict growth in specific imports from China even though textile and apparel quotas in general have been eliminated.
GAO concludes that in the U.S., procedural shortcomings have impaired effective application of the China safeguard. These shortcomings have lead to, among other things, uncertainty and delay that may weaken safeguard actions on some products that were recently released from quota restrictions. Similarly, lack of production data impaired access to safeguard measures for U.S. sock producers, and may pose similar problems should other producers in similar circumstances seek application of this mechanism.

http://www.gao.gov/new.items/d05296.pdf [pdf format, 59 pages]

05AD434 INFORMATION SECURITY: SECURITIES AND EXCHANGE COMMISSION NEEDS TO ADDRESS WEAK CONTROLS OVER FINANCIAL AND SENSITIVE DATA. [GAO-05-262] United States Government Accountability Office (GAO). March 23, 2005; Web-posted March 24, 2005.

Under the authority of the Securities Exchange Act of 1934, the Securities and Exchange Commission (SEC) enforces U.S. securities laws, regulates the securities markets, and protects investors. The SEC relies extensively on computerized systems to support its financial and mission-related operations. As part of the audit of SEC's fiscal year 2004 financial statements, GAO assessed the effectiveness of the Commission's information system controls in protecting the integrity, confidentiality, and availability of its financial and sensitive information.
In this report GAO concludes that SEC has not effectively implemented information system controls to protect the integrity, confidentiality, and availability of its financial and sensitive data. Specifically, the commission had not consistently implemented effective electronic access controls, including user accounts and passwords, access rights and permissions, network security, or audit and monitoring of security-relevant events to prevent, limit, and detect access to its critical financial and sensitive systems. In addition, weaknesses in other information system controls, including physical security, segregation of computer functions, application change controls, and service continuity, further increase risk to SEC's information systems. As a result, sensitive data—including payroll and financial transactions, personnel data, regulatory, and other mission-critical information—were at increased risk of unauthorized disclosure, modification, or loss, possibly without detection.
GAO recommends that the SEC Chairman direct the Chief Information Officer to take several actions to fully develop and implement an effective agency-wide information security program, with priority on the establish and implementation of comprehensive information security policies and procedures.

http://www.gao.gov/new.items/d05262.pdf [pdf format, 29 pages]

05AD424 MEETING ENERGY DEMAND IN THE 21ST CENTURY: MANY CHALLENGES AND KEY QUESTIONS. TESTIMONY OF JIM WELLS BEFORE THE SUBCOMMITTEE ON ENERGY AND RESOURCES, COMMITTEE ON GOVERNMENT REFORM, U.S. HOUSE OF REPRESENTATIVES. [GAO-05-414T]

United States Government Accountability Office (GAO). March 16, 2005.

As a nation, the United States has witnessed profound growth in the use of energy over the past 50 years—nearly tripling energy use in that time. Although the United States accounts for only 5 percent of the world's population, it now consumes about 25 percent of the energy used each year worldwide. The Energy Information Administration (EIA) estimates that U.S. energy demand could increase by about another 30 percent over the next 20 years.
GAO believes that a fundamental reexamination of the nation's energy base and related policies is needed and that federal leadership will be important in this effort. To help frame such a reexamination, GAO offers three broad crosscutting observations.
* First, regarding demand, the amount of energy that needs to be supplied is not a matter of fate, but of choice. Consumers, whether businesses or individuals, choose to use energy because they want the services that energy provides, such as automated manufacturing and advanced computer technologies. Accordingly, consumers can play an important role in using energy wisely, if encouraged to adjust their usage in response to changes in prices or other factors.
* Second, all of the major fuel sources—traditional and renewable—face environmental, economic, or other constraints or trade-offs in meeting projected demand. Consequently, all energy sources will be important in meeting expected consumer demand in the next 20 years and beyond.
* Third, whatever federal policies are chosen, providing clear and consistent signals to energy markets, including consumers, suppliers, and the investment community, will help them succeed. Such signals help consumers to make reasoned choices about energy purchases and give energy suppliers and the investment community

confidence that policies will be sustained, reducing investment risk.

http://www.gao.gov/new.items/d05414t.pdf [pdf format, 38 pages]

05AD503 INTERNATIONAL TRADE: U.S. AGENCIES NEED GREATER FOCUS TO SUPPORT MEXICO'S SUCCESSFUL TRANSITION TO LIBERALIZED AGRICULTURAL TRADE UNDER NAFTA. [GAO-05-272]
United States Government Accountability Office (GAO). March 25, 2005; Web-posted April 25, 2005.

In 1994, the North American Free Trade Agreement (NAFTA) created the world's largest free trade area and, among other things, reduced or eliminated barriers for U.S. agricultural exports to Mexico's vast and growing markets. As part of a body of GAO work on NAFTA issues, this report (1) identifies progress made and difficulties encountered in gaining market access for U.S. agricultural exports to Mexico; (2) describes Mexico's response to changes brought by agricultural trade liberalization and challenges to the successful implementation of NAFTA; and (3) examines collaborative activities and assesses strategies to support Mexico's transition to liberalized agricultural trade under NAFTA.
To aid the successful implementation of NAFTA, GAO recommends that the U.S. Department of State, in cooperation with the U.S. Department of Agriculture (USDA) and other relevant agencies, develop an action plan under the Partnership for Prosperity Initiative laying out specific collaborative efforts on rural development that would support Mexico's transition to liberalized trade under NAFTA. GAO also recommends that the Department of State and other relevant agencies use the Initiative to expand collaboration with Mexico to facilitate credit availability in rural Mexico.

http://www.gao.gov/new.items/d05272.pdf [pdf format, 102 pages]

05AD486 FREE TRADE AREA OF THE AMERICAS: MISSED DEADLINE PROMPTS EFFORTS TO RESTART STALLED HEMISPHERIC TRADE NEGOTIATIONS. [GAO-05-166]
United States Government Accountability Office (GAO). March 18, 2005; Web-posted April 18, 2005.

If completed, the Free Trade Area of the Americas (FTAA) agreement would encompass an area of 800 million people and about $13 trillion in production of goods and services, making it the most significant regional trade initiative presently being pursued by the United States. The 34 democratic nations of the Western Hemisphere formally launched negotiations towards a FTAA in 1998, and set a January 2005 deadline for concluding a FTAA agreement. GAO was asked to analyze (1) progress made in FTAA negotiations since GAO's last (April 2003) report (2) factors that have been influencing the FTAA's progress; and (3) future prospects for the FTAA.
GAO's analysis suggests that three main factors have inhibited progress on the FTAA:
* First and foremost, underlying differences between the United States and Brazil and their respective allies on the depth of rights and obligations on key issues continue.
* Second, negotiations in other forums were given priority over the FTAA, in part because the United States and Brazil deemed that progress there was more possible and could eventually enhance prospects for a mutually advantageous FTAA.
* Third, two mechanisms intended to facilitate compromise, the U.S.-Brazil co- chairmanship and the two-tier structure, have thus far failed to do so.
In a four-page response, the Office of the United States Trade Representative (USTR) disagrees with the GAO's findings. The USTR response, attached as Appendix II to this report, says that the GAO report is a

"poorly framed portrayal of progress and problems in the negotiations", that it overemphasizes the role of the United States and Brazil in the current impasse, and that it does not give sufficient weight to U.S. efforts to make progress.

http://www.gao.gov/new.items/d05166.pdf [pdf format, 53 pages]

05AD466 U.S.-AFRICAN TRADE PROFILE [2005].
United States Department of Commerce, International Trade Administration (ITA). March 2005.

Two-way trade between the United States and Sub-Saharan Africa rose in 2004, as both exports and imports increased. Two-way trade increased 37 percent from a year earlier to $44.4 billion. U.S. exports to Sub-Saharan Africa rose 25 percent to $8.6 billion, due to increased sales of oil field equipment and parts, aircraft, wheat, vehicles, and electrical machinery (including telecommunications equipment). U.S. imports rose 40 percent from 2003 to $35.9 billion, due to increased imports of crude oil (mainly driven by an increase in oil prices) as well as increased imports of platinum, diamonds, woven and knit apparel, and iron (ferro) alloys. Trade between the United States and Sub-Saharan Africa is highly concentrated, with a small number of African countries accounting for an overwhelming share of the total for both imports and exports.
Among the report's highlights are the following:
* U.S. exports to South Africa grew by 13 percent, to Nigeria by 53 percent, to Angola by 21 percent, to Ethiopia by 12 percent, and Kenya by 100 percent. Aircraft sales to Kenya caused the large increase.
* U.S. imports increased from all of the oil producing countries with imports from Nigeria growing by 56 percent, from Angola by six percent, from Gabon by 25 percent, from Equatorial Guinea by 30 percent, and from the Republic of Congo by 98 percent.
* Imports from Chad increased at a very high rate resulting from the start of oil shipments through the Chad-Cameroon pipeline late last year.
* Imports from South Africa increased by 29 percent, with continued growth in imports of platinum, diamonds, ferroalloys, and vehicles and parts.
* In 2004, African Growth and Opportunity Act (AGOA) imports increased 88 percent to $26.6 billion. The top five AGOA beneficiary countries included Nigeria, Angola, Gabon, South Africa, and Chad. While Lesotho was the fourth largest AGOA beneficiary in 2003, AGOA imports from Angola (a new AGOA beneficiary country) and Chad (a new oil producer) in 2004 surpassed those from Lesotho.

http://www.agoa.gov/resources/US-African%20Trade%20Profile%202005.pdf [pdf format, 16 pages]

Congressional Documents (Transcripts, Hearings, etc.)

05AD461 U.S. DEFENSE ARTICLES AND SERVICES SUPPLIED TO FOREIGN RECIPIENTS: RESTRICTIONS ON THEIR USE. [RL30982] Richard F. Grimmett.
Library of Congress. Congressional Research Service. Updated March 14, 2005.

The Arms Export Control Act (AECA), as amended, authorizes the transfer by sale or lease of United States origin defense articles and services through the government-to-government foreign military sales (FMS) program or through the licensed commercial sales process. Section 3(a) of the Arms Export Control Act sets the

general standards for countries or international organizations to be eligible to receive United States defense articles and defense services provided under this act. It also sets express conditions on the uses to which these defense items may be put. Section 4 of AECA states that defense articles and defense services shall be sold to friendly countries "solely for":
* "internal security";
* "legitimate self-defense";
* enabling the recipient to participate in "regional or collective arrangements or measures consistent with the Charter of the United Nations";
* enabling the recipient to participate in "collective measures requested by the United Nations for the purpose of maintaining or restoring international peace and security";
* enabling the foreign military forces "in less developed countries to construct public works and to engage in other activities helpful to the economic and social development of such friendly countries."

Section 3(c)(2) of the Arms Export Control Act requires the President to report promptly to the Congress upon the receipt of information that a "substantial violation" described in section 3(c)(1) of the AECA "may have occurred." This Presidential report need not reach any conclusion regarding the possible violation or provide any particular data other than that necessary to illustrate that the President has received information indicating a specific country may have engaged in a "substantial violation" of an applicable agreement with the United States that governs the sale of U.S. defense articles or services. Since the major revision of U.S. arms export law in 1976, neither the President nor the Congress have actually determined that a violation did occur, thus necessitating the termination of deliveries or sales or other penalties set out in section 3 of AECA.

The United States Government has other options under the Arms Export Control Act to prevent transfer of defense articles and services for which valid contracts exist short of finding a foreign country in violation of an applicable agreement with the United States. These options include suspension of deliveries of defense items already ordered and refusal to allow new arms orders. The United States has utilized at least one such option against Argentina, Israel, Indonesia, and Turkey.

http://www.fas.org/sgp/crs/natsec/RL30982.pdf [pdf format, 10 pages]

05AD492 ARCTIC NATIONAL WILDLIFE REFUGE (ANWR): CONTROVERSIES FOR THE 109TH CONGRESS.

M. Lynne Corn, Bernard A. Gelb and Pamela Baldwin.

Library of Congress. Congressional Research Service. Updated March 11, 2005.

The Arctic National Wildlife Refuge (ANWR) consists of 19 million acres in northeast Alaska. It is administered by the Fish and Wildlife Service (FWS) in the Department of the Interior (DOI). Its 1.5-million-acre coastal plain is viewed as one of the most promising U.S. onshore oil and gas prospects. According to the U.S. Geological Survey (USGS), the mean estimate of technically recoverable oil is 7.7 billion barrels (billion bbl), but there is a small chance that, taken together, the fields on this federal land could hold 10.5 billion bbl of economically recoverable oil (at an oil price of about $35 in 2004 dollars). That latter level would be nearly as much as the giant field at Prudhoe Bay, found in 1967 on the state-owned portion of the coastal plain west of ANWR, now estimated to have held almost 14 billion bbl of economically recoverable oil.

The Refuge, especially the nearly undisturbed coastal plain, also is home to a wide variety of plants and animals. The presence of caribou, polar bears, grizzly bears, wolves, migratory birds, and other species in a de facto wilderness has led some to call the area "America's Serengeti." The Refuge and two neighboring parks in Canada have been proposed for an international park, and several species found in the area (including polar bears, caribou, migratory birds, and whales) are protected by international treaties or agreements. The analysis in this report covers first the economic and geological factors that have triggered interest in development, then the philosophical, biological, and environmental quality factors that have generated opposition to it.

http://www.ncseonline.org/NLE/CRSreports/05mar/IB10136.pdf [pdf format, 16 pages]

05AD481 EXEMPTING FOOD AND AGRICULTURE PRODUCTS FROM U.S. ECONOMIC SANCTIONS: STATUS AND IMPLEMENTATION. [IB10061]
Remy Jurenas.
Library of Congress. Congressional Research Service. Updated February 25, 2005.

The most significant policy change made by the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000 exempts commercial sales of agricultural and medical products to Cuba from the longstanding U.S. trade embargo on that country. At the same time, TSRA made permanent a prohibition on Cuba's access to U.S. private and other public financing to purchase exempted products. Although press coverage suggested that the debate was solely over a Cuba-specific measure, this act in fact codified an exemption for sales of agricultural and medical products in the conduct of U.S. sanctions policy with respect to five countries and the terms under which this exemption operates. In the 109th Congress, S. 328/H.R. 719 respond to an OFAC proposal to elaborate on the "payment of cash in advance" provision governing agricultural sales to Cuba. The Department of Treasury's Office of Foreign Assets Control (OFAC), which administers the financial rules governing U.S. agricultural export sales to Cuba, on February 25, 2005, published a rule in the Federal Register to clarify the meaning of the term "payment of cash in advance." [Effective March 25, it requires that payment be received by the exporter or the seller's agent prior to the goods being shipped from the U.S. port. Prior to this change, payments were frequently made against the presentation of shipping documents in the Cuban port before title was transferred to the buyer.] The American Farm Bureau Federation has responded that this rule will disrupt and likely cut off U.S. farm product sales to Cuba. The USA Rice Federation stated this step will inhibit rice sales to the sixth largest market in volume in 2004, and along with the Farm Bureau, indicated its support for S. 328 to counter OFAC's action.

http://www.ncseonline.org/NLE/CRSreports/05feb/IB10061.pdf [pdf format, 19 pages]

The White House

05AD447 2005 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS [NTE].
Executive Office of the President. Office of the United States Trade Representative (USTR). March 30, 2005.

The 2005 National Trade Estimate Report on Foreign Trade Barriers (NTE) is the twentieth in an annual series that surveys significant foreign barriers to U.S. exports. The report provides, where feasible, quantitative estimates of the impact of these foreign practices on the value of U.S. exports. Information is also included on actions taken to eliminate barriers. The NTE covers 61 major trading partners in each region of the world and profiles policies restricting market access.
The NTE includes successes, as well as some major ongoing problems, including the following:
* The "epidemic levels" of counterfeiting and piracy in China, which cause serious economic harm to U.S. businesses in virtually every sector of the economy.

* The reopening of Japan's market to U.S. beef and beef products after Japan banned imports when one imported cow infected with bovine spongiform encephalopathy (BSE, or "mad cow disease) was found in the United States in late 2003.
* The imposition of a 20 percent tax by Mexico on beverages and syrups made with sweeteners other than cane sugar.

Full Report:
http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_NTE_Report/asset_upload_file383_7446.pdf [pdf format, 684 pages]
Table of Contents:
http://www.ustr.gov/Document_Library/Reports_Publications/2005/2005_NTE_Report/Section_Index.html [Table of Contents, sections in pdf format, various pagings]

Think Tanks and International Organizations

AMERICAN ENTERPRISE INSTITUTE

Trading with Our Enemies
Zimbabwe Sucks Up to Iran, China, and North Korea
By Roger Bate
Posted: Monday, May 2, 2005
To be published in Weekly Standard, Volume 010, Issue 32
Publication Date: May 9, 2005

As Western nations shun the Robert Mugabe regime in Zimbabwe, less scrupulous nations are filling the void. China, North Korea, and Iran are lending financial, military, and commercial support. Two weeks ago, Zimbabwe announced the purchase of six fighter aircraft from China with another six on the way. Enemy number one is Britain, claims Mugabe, and it wants to recolonize his country. He also alleges that George W. Bush is a threat: "We'll put up more of a fight than the Iraqis did." Such crazy talk would be amusing if the dictator's people weren't starving, and if he weren't building strong relations with regimes almost as odious as his own, and certainly more dangerous to us.
http://www.aei.org/publications/pubID.22434,filter.all/pub_detail.asp

Growth and Interaction in the World Economy
The Roots of Modernity
By Angus Maddison
Posted: Monday, April 25, 2005

In this study, Angus Maddison explores the causes of the West's economic growth over the last 2,000 years and contrasts it with the economic history of the rest of the world. Maddison explores the impact of Western conquest on the Americas and analyzes the indigenous and external forces that hindered advance in Asia and Africa. He debunks the notion that the Western ascension originated in the industrial revolution in England in the late eighteenth century. His unique analysis suggests that Western Europe overtook Chinese levels of per-capita income in the fourteenth century, in sharp contrast to the prevailing scholarship asserting that China was ahead of Europe until 1800.

Growth and Interaction in the World Economy provides guidance on the broad contours of development, which complements qualitative analysis that, on its own, cannot clearly identify the timing and scope of economic changes.
http://www.aei.org/books/bookID.818,filter.all/book_detail.asp

BROOKINGS INSTITUTION

Market-Based Community Economic Development
by Robert Weissbourd and Riccardo Bodini
March 2005
With link to full report in PDF (526KB)

Many urban communities have undervalued assets which offer untapped business and development opportunities. Community economic development interventions can enhance market functioning in these neighborhoods, expanding investment and wealth creation. However, enhancing market performance requires new understandings of how markets operate, of the causes of market failure or expansion, and of the levers that move markets. The paper proposes a framework for analyzing markets through examining their production, consumption and exchange functions. It then suggests ways to enhance these functions through increasing productivity, reducing transaction costs, and influencing consumer behavior, in order to enable markets to expand to include more urban assets, people and places. Finally, the paper offers a business planning tool for undertaking market-based economic development activities.

http://www.brook.edu/metro/umi/20050314_communitydev.htm

Using Information Resources to Enhance Urban Markets
by Robert Weissbourd and Riccardo Bodini
March 2005
With link to full report in PDF (269KB)

This paper focuses on the role of information resources in enhancing market performance, particularly in enabling markets to expand to underserved urban areas. Better information and information tools can be used strategically to increase productivity, shift consumer demand or reduce transaction costs and risks—each of which can cause markets to shift to include more inner city assets and people, improving both the neighborhood and the regional economy. Specific examples—ranging from improving credit scoring data in order to expand financial products, to creating better labor force certification in order to expand hiring—are explored, along with key lessons from practitioners about effectively using information resources for community development.

http://www.brook.edu/metro/umi/20050314_inforesource.htm

The Saver's Credit: Expanding Retirement Savings for Middle- and Lower-Income Americans
Retirement Security Project, March 2005
William G. Gale; J. Mark Iwry; Peter R. Orszag
With link to full report in PDF (PDF—192kb).

For decades, the U.S. tax code has provided preferential tax treatment to employer-provided pensions, 401(k)-type plans, and Individual Retirement Accounts (IRAs) relative to other forms of savings. The effectiveness of this system of subsidies remains a subject of controversy. Despite the accumulation of vast amounts of wealth in pension accounts, concerns persist about the ability of the pension system to raise private and national savings, and in particular to improve savings among those households most in danger of inadequately preparing for retirement.

http://www.brook.edu/views/papers/20050310orszag.htm

BUSINESS SOFTWARE ALLIANCE

BSA Applauds Release of Annual USTR Report on Intellectual Property
Special 301 Report Identifies Countries With Lax IP Protections
Washington, D.C. (April 29, 2005)

The Business Software Alliance (BSA) today commended Acting U.S. Trade Representative Peter Allgeier for USTR's annual report that identifies countries that fail to provide adequate and effective protection for intellectual property, and expressed its desire to work closely with USTR to make rapid progress against software piracy.
BSA, as part of the International Intellectual Property Alliance (IIPA), earlier this year recommended that USTR include 56 countries in its annual Special 301 report. Special 301 identifies nations that have failed to adopt legal reforms and enforcement programs necessary to comply with the World Trade Organization's (WTO) Trade-Related Intellectual Property Rights (TRIPs). This year, USTR's report lists 57 trading partners that need to make improvements in IP protection.

http://www.bsa.org/usa/press/newsreleases/2005-USTR-Report-on-Intellectual-Property.cfm

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE (CEIP)

Measuring Globalization
2005 A.T. Kearney/FOREIGN POLICY Globalization Index
May/June 2005

The fifth annual A.T. Kearney/FOREIGN POLICY Globalization Index shows that global integration survived the turbulence of the Iraq war, a sharp economic downturn, and the failure of trade talks. Our ranking of political, economic, personal, and technological globalization in 62 countries reveals that the world is still coming together. Find out who's up, who's down, and how they got there.
The noted international economist Joseph Stiglitz called 2003 "a disaster for globalization." At one level, he was right. The Iraq war and its aftermath created deep fissures between the United States and its allies, and the great majority of countries who opposed the war. The U.N. Security Council, the lead body for international peace and security issues, was dealt a blow by the willingness of the coalition to launch a military campaign without its blessing. The war even prompted boycotts and muttering about possible trade embargoes.

http://www.foreignpolicy.com/story/files/story2823.php

CENTER FOR GLOBAL DEVELOPMENT (CGD)

The Millennium Challenge Account: Making the Vision a Reality
Testimony for the House Committee on International Relations
Steven Radelet, Senior Fellow, Center for Global Development
April 27, 2005

The MCC has made important progress in several areas towards achieving that vision. It has established a lean organization that is taking seriously the ideas of country ownership and consultations in program design. It identified a reasonably strong set of countries to submit proposals for funding. And it is considering a wide range of substantive proposals to support poverty reduction and growth. In other areas, however, progress has been slow and is falling short of the original vision, particularly in terms of size and speed.
http://www.cgdev.org/Research/?TopicID=36

CENTER ON BUDGET AND POLICY PRIORITIES

SOCIAL SECURITY LIFTS 1 MILLION CHILDREN ABOVE THE POVERTY LINE
by Arloc Sherman
May 2, 2005

If you cannot access the files through the links, right-click on the underlined text, click "Save Link As," download to your directory, and open the document in Adobe Acrobat Reader.
A little-known aspect of the Social Security program is its powerful role in providing income security for children. Census Bureau data show that 5.3 million children lived in families that received income from Social Security in 2002. Many of these children qualified themselves for Social Security payments because they were the survivor or dependent of a deceased, disabled, or retired worker who qualified for Social Security. Other children do not receive payments themselves but live in families where someone receives Social Security.

http://www.cbpp.org/5-2-05socsec.htm

AN ANALYSIS OF USING "PROGRESSIVE PRICE INDEXING" TO SET SOCIAL SECURITY BENEFITS
By Jason Furman
Revised May 2, 2005

How Progressive Price Indexing Would Work

Under current law, initial Social Security benefits for each generation of retirees grow in tandem with average wages in the economy. This ensures that each generation receives Social Security benefits that reflect the living standards of its times. Full “price indexing” would make a change in the Social Security benefit formula so that initial Social Security benefits would keep pace only with prices, rather than wages, from one generation to the next. Because prices increase more slowly than wages, this would result in progressively larger benefit reductions over time.[3] The latest estimates by the Social Security actuaries show that full price indexing would cut benefits by 29 percent for people retiring in 2045, growing to a 49 percent cut for people retiring in 2075, relative to the benefits scheduled under the current Social Security system.

The Pozen proposal would use price indexing to determine the benefits for "maximum earners," people who currently make $90,000 or more annually. Lower-earners — specifically the bottom 30 percent of earners, or those who make less than about $20,000 currently — would continue to have their benefits calculated under the current formula. (Pozen describes the cutoffs as $25,000 but that is because he is using the expected threshold level in 2012 and expressing it in 2012 dollars.) Anyone whose annual earnings over his or her career averaged between $20,000 and $90,000 would get a benefit somewhere between the currently promised benefit and the benefit that would be provided under price indexing. For example, a worker making about $35,000 annually would be subject to about half of the price-indexing benefit reduction, while a worker making about $55,000 annually would be subject to more than 80 percent of the price-indexing benefit reduction.

http://www.cbpp.org/3-21-05socsec.htm

HERITAGE FOUNDATION

Free Trade Agreement Would Benefit Central America

Wednesday, May 04, 2005

By Stephen Johnson

In one day back in March, police from Los Angeles to Dallas to Baltimore arrested more than 100 suspected members of the notorious Salvadoran street gang known as Mara Salvatrucha (search).

Gang members were charged with a variety of crimes, from murder and kidnapping to stealing cars and trafficking in guns, weapons and prostitutes. Some even have been implicated in schemes to help al Qaeda operatives and other terrorists slip into the United States.

Few question that a strong law-enforcement effort is a crucial component of America's response to the growing problems posed by this and other gangs with roots in Central America. But what else might be done? How else might we go about increasing imports of desirable products from the region and reducing imports of crime and illegal drugs?

http://www.foxnews.com/printer_friendly_story/0,3566,155384,00.html

U.S. Troops and Economic Growth: Regression Analysis with Robustness Tests

by Garett Jones and Tim Kane

WebMemo April 12, 2005

Abstract: The deployment of U.S. military troops to foreign countries has a positive relationship with economic growth in the host countries. We use data on the deployment of U.S. troops to foreign countries over the years 1950-2000 and Summers-Heston data on real gross domestic product per capita (GDP) of 94 countries during the years 1960-2000. Robustness tests confirm the strong troops-growth relationship. The security umbrella provided by American forces and the role troops may play in diffusing institutions are among explana-

tions suggested for the relationship.

http://www.heritage.org/Research/Economy/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=76735

The Democratic Benefits of a Free Trade Agreement with Central America
by Ana Isabel Eiras
Backgrounder #1846 April 20, 2005

Increasing economic opportunity and strengthen-ing homeland security are two of the U.S. govern-ment's major goals. Advancing free trade is essential to reaching both of these goals. Hence, the Bush Administration and Congress should be praised for significantly advancing free trade with Australia, Morocco, Chile, and Singapore.

Now the United States has an even more important opportunity to expand trade with countries right on its doorstep through DR–CAFTA, a free trade agree-ment with the Dominican Republic, Costa Rica, Gua-temala, Honduras, El Salvador, and Nicaragua. The Administration should push Congress to approve this free trade agreement promptly.

http://www.heritage.org/Research/TradeandForeignAid/bg1846.cfm

INSTITUTE FOR INTERNATIONAL ECONOMICS

The Euro at Five: Ready for a Global Role?
by Adam S. Posen (ed.)
April 2005

The euro is the only major currency to be created in the 20th century; it now stands on the brink of becoming one of the world's two reserve currencies in the 21st century. The euro's use and development shape the entire agenda for ever-closer union in Europe and for transatlantic relations. As the currency bearing the brunt of the US dollar's decline from its overvaluation of the late 1990s, the euro's value and management is critical to the successful adjustment of international imbalances. And as a long-run competitor and collaborator with the dollar, the euro creates the potential for a *bipolar* international monetary system, offering unprecedented challenges and opportunities to economic policymakers. The papers and commentaries in this book explore the euro's international role, its record thus far, and its future.

http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=3748

CONTINUED SOLID GLOBAL GROWTH IN 2005 BUT RISING RISKS FOR 2006
Michael Mussa; Martin Neil Baily; Morris Goldstein
April 7, 2005

Washington, DC—In its semiannual assessment of global economic prospects, experts from the Institute for International Economics foresee global growth moderating to 4 percent this year and slightly slower in 2006, from the very rapid 5 percent advance of 2004. However, high world oil prices, increasing infl ationary pressures in key economies, and the need to unwind major international imbalances (especially those of the United States and China) imply rising risks for both growth and infl ation in 2006.

The Institute today released this new economic assessment by three of its senior fellows: former International Monetary Fund chief economist Michael Mussa, former Council of Economic Advisers Chairman Martin Baily, and former IMF Deputy Director Morris Goldstein.

All three concluded that the very rapid pace of global economic expansion in 2004—led by strong demand growth in the United States and China—could not be sustained. To contain risks of rising infl ation, growth needs to decline to a pace consistent with economic potential, and the pattern of growth needs to become better balanced across sectors and around the world. Nevertheless, solid sustained growth remains likely if three important risks can be averted.

http://www.iie.com/globeconpros0405.pdf

WORLD BANK

05AD504 WORLD DEVELOPMENT INDICATORS [WDI] 2005.
World Bank. April 17, 2005.

World Development Indicators (WDI) is the World Bank's premier annual compilation of data about development. The 2005 WDI includes more than 800 indicators in 83 tables organized in 6 sections: World View, People, Environment, Economy, States and Markets, and Global Links. According to the WDI data, only 33 countries are on track to reach the 2015 goal of reducing child mortality by two-thirds from its 1990 level. Almost 11 million children in developing countries die before the age of five, most from causes that are readily preventable in rich countries. These include acute respiratory infection, diarrhea, measles and malaria, which together account for 48 percent of child deaths in the developing world.
Four regions—East Asia and the Pacific, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa—have made substantial progress toward the target of reducing child mortality by two-thirds. The most difficult challenge is faced by Sub-Saharan Africa, where child mortality has fallen only marginally, from 187 deaths per thousand in 1990 to 171 deaths in 2003, the last year for which figures are available. The Millennium Development Goal (MDG) target for Sub-Saharan Africa is to reduce the under-five mortality rate to 62 deaths per thousand by 2015.
Also, South Asia and Sub-Saharan Africa lag far behind the “Education for All” goal and, at the present pace, will not reach it by 2015, while the developing countries of Europe and Central Asia and the Middle East and North Africa, will also have to pick up their pace of enrolments to achieve it. Meanwhile, the regions of East Asia and the Pacific and Latin America and the Caribbean are expected to reach the target well before 2015.

[Note: Contains copyrighted material.]

http://www.worldbank.org/data/wdi2005/wditext/TOC.htm [Table of Contents page, sections in html format, various pagings]

05AD471 WORLD ECONOMIC OUTLOOK: GLOBALIZATION AND EXTERNAL IMBALANCES.
International Monetary Fund (IMF). Web-posted April 13, 2005.

According to this latest Economic Outlook, global growth for 2004, at 5.1 percent, was the highest in decades. But the IMF warns that growth rates are divergent across regions. The expansion continues to be overly dependent on growth in the United States and emerging Asia, while growth in the euro area and Japan is much less robust. China has experienced considerable growth in investment, but the IMF cautions that the quality of the investments are often not very high; they also urge China to increase exchange rate flexibility. India, according to the report, need greater investment in infrastructure and expanded sources of revenues. One of the brightest spots in the current global recovery has been the acceleration of growth in Sub-Saharan Africa to over 5 percent in 2004, which is the highest in almost a decade. The IMF foresees continued growth in 2005 and 2006 for Africa.

The report discusses risks to continued economic growth -- primarily higher interest rates, high and volatile oil prices, and increasing current account imbalances. The report also goes into detail over imbalances, specifically pointing to the problem that the current direction of capital flows does not match what is needed given demographic trends. The developing world is becoming increasingly important in terms of global production and the populations of industrialized countries are aging relatively quickly. According to the IMF, in general "rich countries should be saving more and running larger current account surpluses. Poor countries should be investing more, and running larger current account deficits."

[Note: Contains copyrighted material.]

http://www.imf.org/external/pubs/ft/weo/2005/01/index.htm [Table of Contents page, text sections in pdf format, tables and figures in both pdf and csv formats, various sizes]

05AD472 2005 GLOBAL MONITORING REPORT. MILLENNIUM DEVELOPMENT GOALS: FROM CONSENSUS TO MOMENTUM.
World Bank and International Monetary Fund (IMF). Web-posted April 12, 2005.

This report was prepared as a focal point of discussion by finance ministers, central bankers, and development ministers in Washington this past weekend at the spring meetings of the World Bank and International Monetary Fund (IMF). It will also serve as an important input into the upcoming G8 heads of state meeting to be held in the UK in July and the UN Summit on the Millennium Development Goals (MDGs) in September. The authors of the report warn that progress towards the 2015 Millennium Development Goals is falling short and recommend the following steps to accelerate progress:

* Ensure that development efforts are country-owned. Scale up development impact through country-owned and led poverty reduction strategies;
* Improve the environment for private sector-led economic growth. Strengthen fiscal management and governance, ease the business environment, and invest in infrastructure;
* Scale up delivery of basic human services. Rapidly increase the supply of health care workers and teachers, provide larger and more flexible and predictable financing for these recurrent cost-intensive services, and strengthen institutional capacity;
* Dismantle barriers to trade through an ambitious Doha Round, including major reform of agricultural trade policies—and also increasing "aid for trade";
* Double development aid in the next five years. In addition, improve the quality of aid, with faster progress on aid coordination and harmonization.

Full Report:
http://siteresources.worldbank.org/GLOBALMONITORINGEXT/Resources/complete.pdf [pdf format, 280 pages]

Executive Summary:
http://siteresources.worldbank.org/GLOBALMONITORINGEXT/Resources/execsum.pdf [pdf format, 6 pages]

WORLD TRADE ORGANIZATION (WTO)

Rich Countries Signal Progress on Debt Reduction for Poor Nations, April 16, 2005

(Financial officials view high oil prices, uneven growth as risks)

Leading industrial countries say they have made progress on debt forgiveness for the most impoverished nations and a number of other issues.

Finance ministers and central bank heads from the Group of Seven (G7) said they advanced discussions on particular nations covered by the Highly Indebted Poor Countries (HIPC) program with a view to canceling up to 100 percent of their debt to multilateral institutions.

Debt forgiveness, however, should not reduce resources available to the poorest countries through these institutions, officials said in an April 16 statement issued after the conclusion of their meeting in Washington.

The G7 comprises Canada, France, Germany, Italy, Japan; the United Kingdom and the United States.

http://www.usembassy.it/file2005_04/alia/a5041504.htm

Articles from U.S. Journals

(Contact the IRC for copies)

AA05108 CHILD LABOR IN THE GLOBAL ECONOMY
Edmonds, Eric V.; Pavcnik, Nina
Journal of Economic Perspectives Vol. 19, No. 1, Winter 2005, pp. 199-220

Summary: Edmond and Pavcnik, assistant professors of economics at Dartmouth College, say economic development that raises the incomes of the poor is the best way to reduce child labor and improve education around the world. The best evidence of this is the fact that child labor declines rapidly as families become richer, reduce their dependence on the income of children, and start sending them to school, they write. Bans on child labor are not particularly effective, they note, and can simply force children into worse, underground child labor abuses such as prostitution. Initiatives that improve school infrastructure and reduce the cost of schooling -- including incentive programs such as conditional cash transfers for households that send children to school -- provide a promising way to reduce child labor, say the authors. Formal evaluations of programs designed to reduce child labor are lacking, so long-term solutions to the widespread incidence of child labor remains an open question, they write. [ES;LCJ]

AA05109 THE MEXICAN COMEBACK

Farrell, Diana; Remes, Jaana

International Economy Vol. 19, No. 1, Winter 2005, pp. 46-47, 63

Summary: China's entry into the World Trade Organization and its increasing dominance in a broad range of manufacturing export sectors has sent other countries scrambling to respond, says Farrell and Remes. Particularly, they note, middle-income countries such as Mexico, Brazil, Poland, Portugal and South Korea are concerned as their rising standard of living has weakened their long-held positions as low-wage producers and exporters. They describe one Mexican electronics company that was hit hard as its orders were lost to Asia and its workforce had to be cut by half from 2001-2002. This electronics company responded well, say the authors, by learning to make more complex, customized products, retooling the factory inventory system and providing productivity training to their workers. Consequently, orders poured in and employment is now 10 percent higher than it was at its peak in 2001, they write. Middle-income countries facing the competition problems like Mexico should respond by finding their competitive advantages and creating higher value-added activities so that they can continue to move up the development path, the authors say. Farrell and Remes are, respectively, Director and Senior Fellow at the McKinsey Global Institute. [ES;LCJ]

AA05110 PEAKING OF WORLD OIL PRODUCTION: IMPACTS, MITIGATION AND RISK MANAGEMENT

Hirsch, Robert; Bezdek, Roger; Wendling, Robert

National Energy Technology Laboratory, U.S. Department of Energy February 2005, 91 pp.

Summary: In this confidential report prepared for the Department of Energy, the authors warn that the imminent peaking and decline of world oil production presents the U.S. and the industrialized world with an unprecedented challenge, noting that even under optimal circumstances, a shift away from fossil fuels will be difficult, time-consuming and costly. They note that, although the future date at which energy-industry experts predict that oil peaking will occur varies, oil may become scarce and increasingly volatile in price well before the actual peak occurs. In this candid and sober assessment of the peak-oil threat, they believe that a massive mitigation program would need to be started by the government 10-20 years prior to the watershed moment of a peak, in order to avert a shortfall of liquid fuels and widespread economic hardship. [TEM;GWB]

AA05111 SHOULD THE CEO BE THE CHAIRMAN?

Lorsch, Jay W.; Zelleke, Andy

MIT Sloan Management Review Vol. 46, No. 2, Winter 2005, pp. 71-74

Summary: Recent U.S. corporate scandals have shaken people out of their complacency regarding corporate governance, write Lorsch and Zelleke, but a knee-jerk reaction to adopt the British model of company leadership -- which separates the CEO from the chairman of the board -- without understanding its complexities is not the answer. The British model can lead to confusion about who is really in charge and power struggles, they say. Conversely, the authors explain, the U.S. model -- in which the CEO is also the chairman -- precludes any confusion as to who is really in charge. There are pros and cons to each model, they note, but for most large U.S. companies, adding a competent lead director to the board -- with clearly defined limited responsibilities -- will likely strike the right balance between effective governance and leadership. Boards that do choose to split the chairman and CEO jobs should not ignore lessons from the U.K. experiences, they write. Lorsch and Zelleke are from Harvard Business School and Wharton School of Business, respectively. [ES; LCJ]

AA05096 SINKING GLOBALIZATION

Ferguson, Niall

Foreign Affairs vol. 84, no. 2, March/April 2005, pp. 64-77

Summary: Ferguson, professor of history at Harvard University, notes that there are eerie parallels between the current global economy and the world economic system on the eve of World War I. Then, the mobility of capital, goods and labor had reached unheard-of levels, and the world was enjoying a wave of innovation, such as the radio and the telephone. But great-power rivalry, unstable alliances and rogue states plunged Europe into a catastrophic war, and the global economy did not fully recover for several decades; most investors were caught unawares when World War I broke out. Ferguson notes the major difference between then and now is that the major world power -– the U.S. -– is the world's largest debtor, as opposed to Britain, which in the 1910s was a major exporter of capital. He notes that the great-power rivalry is now between the U.S. and China, which could flex its muscles by dumping U.S. bonds on the financial markets, or invade Taiwan, which in Ferguson's words "looks somewhat like the Belgium of old: a seemingly inconsequential country over which empires end up fighting to the death." North Korea, he notes, is a "little like pre-1914 Serbia with nuclear weapons." He warns that a major military or political crisis could send shockwaves through the international system. [TEM;GWB]

AA05095 ALIGNING AID WITH ADJUSTMENT

Tokarick, Stephen

Finance & Development Vol. 42, No. 1, March 2005, pp. 30-33

Summary: Tokarick, a Senior Economist at the International Monetary Fund, asks who the winners and losers would be in a world with greater agricultural liberalization. He finds that, generally, net importing countries would lose because the consumer losses would outweigh the producer gains, while the net exporting countries would win since producer gains would outweigh consumer losses. In many cases, he points out, increased import costs for food products can be offset by also liberalizing nonfood agricultural products (such as cotton), since many of the developing countries that are net importers of food are also net exporters of nonfood agricultural products. Greater attention needs to be paid to how agricultural trade liberalization is implemented, how anticipated losses can be offset, and how concerns about possible balance of payments shortfalls can be addressed in order to make it more attractive to all parties involved, writes Tokarick. [ES;LCJ]

AA05094 HOW FREER TRADE CAN HELP FEED THE POOR

Nash, John; Mitchell, Donald

Finance & Development Vol. 42, No. 1, March 2005, pp. 34-37

Summary: Nash and Mitchell, both with the World Bank, say that eradicating costly protectionist barriers may be one of the best ways to feed the poor. They note that the world already produces enough food to feed everyone, so the current focus on increasing national food production is the wrong approach. Global trade liberalization could make important contributions to combating hunger by delivering cheap food in protectionist countries and boosting the global economy, helping to lift millions out of poverty, they write. The authors describe the negative aspects of protectionist food policies, such as that fact that they encourage farmers to plant low-value crops, create higher domestic food prices, and policymakers use them as a substitute for more effective options. [ES;LCJ]

AA05093 THE SILENT STRUGGLE AGAINST TERRORIST FINANCING
Myers, Joseph M.
Georgetown Journal of International Affairs Vol. 6, No. 1, Winter 2005, pp. 33-41

Summary: Myers, former Director of International Financial Affairs in the Office of Combating Terrorism on the Bush Administration's National Security Council, says that financial intelligence, investigations, prosecutions, sanctions and diplomacy can make a meaningful contribution to the security of the United States against the threat of Islamist terrorism. But, as long as people are motivated to commit acts of terrorism, he says, no actions designed to combat terrorist finance will ever eliminate the flow of funds. Furthermore, the effectiveness of U.S.-initiated sanctions and other actions are limited by the extent to which they are supported and implemented internationally, he states. The Financial Action Task Force only recently hammered out a basic agreement on how best to implement sanctions against terrorist groups, he writes. Terrorist finance is intricately interwoven with the larger war on terror, he notes, and it must be integrated into overall counterterrorism strategies. [ES;LCJ]

AA05079 LET IT RIDE
Rogoff, Kenneth
Foreign Policy Vol. 147, March/April 2005, pp. 74-75

Summary: Rogoff, professor of economics at Harvard University, notes that the recent wild gyrations of the euro and other currencies have once again led to demands for a more stable system of international exchange rates. However, he believes that the current system -- in which monetary policy does a decent job of stabilizing inflation, and a bad job at stabilizing exchange rates -- may be the best option. Rogoff provides two main reasons for letting the market set exchange rates: first, history shows that policymakers are more likely to mismanage exchange rates than to stabilize them, primarily because currency swings are often difficult to explain or understand. Second, although there may be costs to volatile exchange rates, demonstrating that they really matter is nearly impossible. Central banks have learned that controlling the exchange rate is less important that controlling inflation, says Rogoff. Therefore, he concludes that policymakers should focus on adopting sound policies for domestic growth, and leave exchange rates to the market. [ES;LCJ]

AA05078 OVER A BARREL
Roberts, Paul
Mother Jones Vol. 29, No. 6, November/December 2004, pp. 64-69

Summary: Petroleum experts are warning that oil will soon become too expensive and scarce to be dependable; the world oil markets are so tight that even a minor disturbance could send prices soaring. Yet, the author notes, the U.S. still relies on a decades-old energy policy that focuses on increasing supplies and does little to curb demand. High oil prices are beginning to bring more attention to alternative energy sources -- but Roberts notes that renewable energy accounts for only a tiny percentage of domestic U.S. energy production, and most alternative energy sources are "nowhere near ready for prime time." New automotive technologies such as hybrid cars are more fuel-efficient -- but will further postpone the time when alternative fuels such as hydrogen or biodiesel will displace their hydrocarbon rivals. While our current energy predicament may "unlock the political logjam" that has hampered development of alternative energy sources, Roberts writes that the U.S. has not mustered the political will for the massive public investment needed to switch to new sources of energy. He fears that we do not have enough time, and what the U.S. will do if it "finds itself in a real energy emergency." [TEM;GWB]

AA05077 COMMUNICATING GOOD GOVERNANCE TODAY
Parsons, Kelli
Public Relations Strategist Vol. 11, No. 1, Winter 2005, pp. 6-9

Summary: Parsons, corporate practice director for public relations firm Hill & Knowlton, says that ethical leadership and honest communications protect a company's most prized possession -- its credibility. The author's firm's annual global survey of senior executives, Corporate Reputation Watch, reflects a measurable shift in the mind-set of senior management worldwide, she writes. For example, executives identified management team reputations as the single most important non-financial factor of company reputation. Seventeen percent regarded transparency and strong governance as the most important factor; most believed that issues of investor confidence and trust following a few highly publicized corporate scandals are the factors driving corporate governance reforms. Parsons emphasizes that advertising the actions a company takes -- such as strengthening governance and stewardship, philanthropic activities, and other things that positively impact the community -- will build trust and increase stakeholder confidence. [ES;LCJ]

AA05076 THE DEFICIT DEBACLE
Baker, Gerard
Foreign Policy Vol. 147, March/April 2005, pp. 42-47

Summary: The International Monetary Fund has warned that "large U.S. deficits pose significant risks for the rest of the world", but Baker points out that any success the U.S. has in reining in its mounting budget and trade deficits will have repercussions everywhere, particularly in Europe, Japan and China. If the U.S. is to halve its fiscal deficit in the next four years, it would remove a sizeable chunk of money from the global economy that has driven global growth these last four years, he writes. A shrinking U.S. fiscal deficit would lead to growth of European deficits which would further complicate Europe's political challenges of balancing monetary policy set by the central bank with the fiscal policies of 12 separate governments, he says. Japan's fiscal deficit is already 9 percent of its national income, and if Tokyo continues its tendency to export its way out of economic woes at the expense of the rest of the region, resentment is sure to escalate. China's economy, says Baker, would perhaps have the largest and most unpredictable changes, caused by declining foreign investment and banking crises. He says the world may not be ready for the global political and fiscal ramifications of halving the U.S. deficit. [ES;LCJ]

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