



### TROUBLED WATERS

*MUCH HAS HAPPENED* over the past month; little of it has been clarifying. Of the two political uncertainties that loomed large this spring, one – the outcome of the November U.S. national elections – is still months from being settled, while the conclusion of the other – the referendum on Britain's exit from the EU – has led to an unstable situation that has, among other effects, scrambled an array of trade deals in various stages of realization. This *WIBR* will begin with a look at the state-of-play on Capitol Hill where the leadership's aspirations have exceeded its grasp, and at the state of the U.S. economy, which, mediocre as it is, nonetheless outstrips the performance elsewhere. We will then turn to Brexit and its implications for world trade.

**CONGRESS: GONE HOME** – Congress left Washington in mid-July for a seven-week recess, to return after Labor Day for a shortened pre-election session. Before leaving it did manage to finish a must-pass bill when it voted to extend the existing authorization for the Federal Aviation Administration, and despite the hyper-partisanship of this election year, it has passed some other important items. However, it left on the table the ultimate must-pass measure: a Continuing Resolution to keep the government open past the October 1 start of Fiscal Year 2017. This is needed because, despite the leadership's promise of a return to “regular order,” Congress again is failing to pass the 12 individual appropriations bills funding federal government programs.

On the surface Congress appears to be moving the appropriations process forward. Bills have gone through committee mark-up. Some even passed on the floor. The Senate Appropriations Committee has approved all 12, with bipartisan support. But in fact the process broke down early amid disagreement among House Republicans over whether to adhere to the 2011 “sequestration” budget cap or accept the higher cap set in last year's bipartisan budget deal. Moreover, Senate Democrats threaten to filibuster any bill that is based on the sequestration number or that adds money for defense without raising non-defense spending. They also warned that they won't accept bills with “toxic” Republican policy riders. This standoff even managed to mire the usually popular Defense Appropriations Bill, and it is now clear that few spending bills will navigate their way to enactment by October.

The question to face Congress in September is the duration of the inevitable CR. Conservatives want it to extend into next year to avert the threat of the post-election lame-duck session passing a “budget-busting” Omnibus Appropriations Bill. An omnibus bill subsumes all the pending spending bills, but unlike with a CR, Congress can set the funding for individual programs and the overall

spending level as it chooses. On the other side, members of the Appropriations Committees are taking the lead in pushing for a brief CR that will enable them to shape an omnibus bill later this year based on the work they have done on the individual bills. The only sure thing (perhaps) is that September will see enactment of a CR, short or long, since the alternative is politically ominous: a government shutdown a month before the election.

**THE ECONOMY – Here, Bland:** – The economic environment in which Congress is maneuvering is, at the moment, relatively benign. But it is not so benign that the U.S. Federal Reserve may feel comfortable raising interest rates soon, and this appears to remove a potential economic shock from electoral concerns. In fact, the impending election itself is a factor that may stay the Fed's hand until later this year, and the uncertainties unleashed by Brexit compound the Fed's risk aversion. However, whereas a month ago, in the wake of a dismal May U.S. jobs report, the general assessment was that it would be a long wait before the next rate hike, the better than expected robust June nonfarm payrolls report made a hike this year a bit more likely: the economy added a net 287,000 jobs, and the unemployment rate rose to 4.9% on the back of rising labor force participation. Nonetheless, the 147,000 new-jobs average for the past three months is not an exciting trend line. Neither is this year's decline in trade, though in May imports rose while exports continued to fall as the monthly trade deficit expanded by over 10% to \$41.1 billion. Of course, the U.S. is not the culprit for the sluggishness in world trade; blame the continued weakening of foreign economies.

In fact, the U.S. continues to do better than most. The third estimate of first-quarter GDP growth was revised up to 1.1% (annualized). Still, it was the weakest pace in a year, as business spending and profits – though not reflected in the surging stock market – remain soft. Data released thus far suggest that, as in recent years, growth will rally in the second quarter. The Fed's assessment is now subdued, focused on external risks (especially Brexit and China's slowdown), lagging productivity, and below-trend GDP growth. The IMF, in its annual assessment of the U.S. economy, also flagged concerns – income inequality, lagging productivity, the overvalued dollar, demographic changes – which led it to endorse the Fed's “very gradual upward path for the federal funds rate.” So although there appears to be no risk of recession on the U.S. horizon, the Fed still fears moving too quickly more than waiting too long.

**Elsewhere, Agitated:** Whereas the question for the U.S. central bank is when it will next raise rates after last December's lift-off, the question abroad is when the next bout of fiscal and monetary stimulus will be unleashed. In China, the economy apparently slowed again in the second quarter as exports and consumer spending weaken and bad debts continue to be a drag on growth. The government fears labor unrest if it acquiesces to international demands to shutter excess capacity in the steel and related sectors, and may instead opt for short-term relief through another round of stimulus spending, a path more likely to worsen than cure the country's long-term structural problems. In Japan, more stimulus is explicitly on the agenda following the strong win for the ruling coalition in the July 10 Upper House elections. Prime Minister Shinzo Abe declared it an endorsement of his “Abenomics” economic approach. But he is not yet focusing on the Abenomics' lagging “third arrow” – structural reform. Instead, he called for even more fiscal and monetary stimulus centered about public works projects, a plan that immediately thrilled equities investors but echoes past policies that left Japan with deflation and stagnation.

**The Pleasure of Punishing:** Still, the focal point for financial worries may not be Asia, but Europe. Even apart from Brexit, the continent has severe economic afflictions. The chief economist of Deutsche Bank (which is itself struggling) just proclaimed Europe to be “extremely sick,” facing “a slow, long downward spiral.” Italy's banking sector is so mired in non-performing loans that Rome is discussing a “support package” with Eurozone authorities, hoping to be allowed to skirt some EU bailout rules. Meanwhile, Brussels is taking a hard approach with Spain and Portugal. Out of compliance with EU budget deficit rules, the Iberian neighbors were informed on July 12 that the European Council “will trigger sanctions under the excessive deficit procedure.” In fact, other members of the block have deficit issues too. One is France, where its Finance Minister, with a clear eye on anti-EU forces throughout the continent, gave Brussels a warning: it would be “a bad signal... to punish for the pleasure of punishing.”

Thus, the EU has much on its plate at a time when it is soon to embark on intricate and difficult separation talks with Britain. Europe is divided. One line pits the austere, fiscally sound countries of northern Europe vs. the less disciplined south. Another line pits the European Commission bureaucrats, aligned with the European Parliament, against officials of member-state national governments, which function through the European Council. The former want to drive a hard bargain with London, worrying that showing flexibility might encourage others to think they could keep EU benefits while ignoring EU commitments. The latter worry that pushing too hard might encourage their own domestic anti-EU forces – and also worry about disrupting their own economic interests that require continued close relations with the UK.

**Leaving is Hard:** The UK is expected to leave the EU in about two years; that is, it can remain an EU member for two years after invoking the EU's Article 50 opt-out clause. Although the situation is not entirely clear, it does not seem that the UK can either begin to formally negotiate its future trade arrangement with the EU nor begin the laborious task of sorting out its World Trade Organization commitments, which relate to individual countries, products, and WTO agreements, until its exit from the EU is complete. Nor can it simply continue the trade arrangements it currently has with other countries through their free trade agreements with the EU, or continue the WTO commitments it had adopted as a member of the EU. There is one area where it may be possible to continue its existing trade relationships by obtaining a WTO waiver – unilateral trade preferences it grants to developing countries. A waiver is not more generally usable, however, since any waiver must be approved by every WTO member.

**Bilateral, Unilateral:** Although British officials have already expressed interest in forging free trade agreements with various trading partners, many of which have returned the interest, it does not appear such deals could be formally negotiated (as opposed to informally discussed) until the UK has officially exited, finalized its future relationship with the bloc, and settled its WTO commitments. There is another option: the UK could declare a unilateral free trade, zeroing out tariffs and other trade barriers for all trading partners, and farm subsidies. This would, among other things, quickly settle the UK's WTO commitments. This is a strategy credited for the world-beating economic success of Hong Kong and Singapore, but it is almost impossible for any large country to execute politically, even if it was a vision of some Brexit supporters.

**Article 50 Question:** There is a wild card. The UK can choose when to invoke Article 50. Notably, the EU's Lisbon Treaty does not have a “push-out” clause, a way for other members to drop a country if it fails to adhere to Brussels' various regulations, other than if it actually breaches democratic and human rights standards. This raises the intriguing prospect of the UK refraining from Article 50, implementing its own laws to replace objectionable Brussels dictats, yet staying within the trade bloc. A highly unlikely scenario, it nonetheless suggests the UK could take its time before activating Article 50. Considering the centrifugal forces already roiling the EU, waiting may take the UK to a time when the bloc itself is pushed by popular and populist pressures to ease the regulatory and social (e.g., immigration) demands it places on members and enable the sort of flexibility the UK had sought from Brussels before the Brexit vote.

**TRADING TROUBLE** – The troubled waters churned up by Brexit slosh beyond the two sides of the English Channel. Among other economic and financial effects, Brexit has dampened prospects for an array of trade agreements currently under negotiation. Of course a cloud has also risen over agreements already in force that include the EU, since they no doubt included concessions offered by others in exchange for benefits expected from British participation. How that will be sorted out remains to be seen, but agreements now under negotiation also must deal with this Brexit complication: they are being shaped while the EU includes the UK but will face a different reality when implemented. Moreover, Britain was the most free-market oriented EU country. France and Germany can be less so, as are the emerging populist forces of the sharp left and right within every EU country. So not only will sorting out the UK's exit distract EU negotiating energy away from these efforts – they will also suffer from London no longer having a meaningful role at the negotiating table.

The array of trade negotiations that Brussels is involved in is significant: the US-EU Trans-Atlantic Trade & Investment Partnership, the plurilateral Trade in Services Agreement, the plurilateral WTO Environmental Goods Agreement, and bilateral talks including for the EU-Japan Free Trade Agreement and the EU-China Bilateral Investment Treaty. It also just recently concluded, with some difficulty, the EU-Canada Comprehensive Economic and Trade Agreement (CETA), which, along with the EU-Singapore FTA, awaits ratification.

The TTIP is just concluding its 14<sup>th</sup> round. French officials continue to report that the talks are “not going well” and simply won't be concluded anytime soon. Prospects are better for both TISA, currently holding its 19<sup>th</sup> negotiating round, and EGA, whose 15<sup>th</sup> round is set for late July. Following recent concessions by China, EGA is to get a final push from Group of 20 leaders at their early September summit in Hangzhou and be concluded this year. TISA is also making good progress but is more controversial and will take longer to conclude. The UK will join these as part of the EU but as with other plurilateral deals such as the WTO Government Procurement Agreement and recent expansion of the WTO Information Technology Agreement, it will have to accede to them anew after Brexit is finalized.

CETA, however, has already felt Brexit's chilling effect. The EC bureaucracy wanted it ratified with the approval of just the Parliament and a weighted majority of the Council, but seeing this as a power-grab by the Commission against the elected governments – a politically risky move, – governments objected and ratification will now require approval by all national (and even some regional) parliaments, a development that could hold up ratification for years.

*Who's Who Intl. Washington 16-7*

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**STATE DEPARTMENT**

**AMBASSADORS-** **Andrew Young**, Deputy Chief of Mission in Mali, is the nominee for **Burkina Faso**...**Kamala Shirin Lakhdhir**, Executive Assistant to the Under Secretary of State for Political Affairs, is the nominee for **Malaysia**.

**DEPUTY ASSISTANT SECRETARY FOR DIGITAL STRATEGY-** **Moira Whelan** is stepping down from this post.

**BUREAU OF COUNTERTERRORISM-** **Brett Thurman**, a Foreign Service Officer currently on assignment as a Lawrence S. Eagleburger Fellow with Medtronic, Inc., will join the Bureau, working on topics in South Central Asia.

**GLOBAL ENGAGEMENT CENTER-** **Special Envoy and Coordinator Michael Lumpkin** is leading this new interagency entity charged with coordinating U.S. counterterrorism messaging to foreign audiences. Lumpkin had previously been Assistant Secretary of Defense for Special Operations and Low-Intensity Conflict.

**TREASURY DEPARTMENT**

**FINANCIAL STABILITY OVERSIGHT COUNCIL-** **Jonah Crane, Senior Advisor** at Treasury and former staffer to Senator Chuck Schumer (D-NY), succeeds **Patrick Pinschmidt**, as **Executive Director**.

**OFFICE OF FOREIGN ASSETS CONTROL (OFAC)-** The **Assistant Director for Licensing** is **Davin Blackborrow**...**Deputy Assistant Director for Licensing** is **Jeannette Miller**, who previously headed the Iran section.

**SECURITIES INVESTOR PROTECTION CORPORATION**

**BOARD OF DIRECTORS-** **Bonnie Barsamian**, Partner at Baker Botts LLP, has been nominated as a member.

## INTERNATIONAL TRADE COMMISSION

**CHAIRMAN**- The Commission's senior Democrat, **Irving Williamson**, has succeeded **Meredith Broadbent**, whose term expired on June 16.

## CONGRESS

**HOUSE**- Representative **Chaka Fattah** (D-PA) has resigned...Representative **Joaquin Castro** (D-TX) is joining the **House Permanent Select Committee on Intelligence**...Members of the **Congressional Global Investment in America Caucus** are Representatives: **Jim Himes** (D-CT), Co-Chair; **Andy Barr** (R-KY), Co-Chair; **George Holding** (R-NC); and **Mike Honda** (D-CA)...Lt. Col. **David Davis** is now **Chief of Staff** to Representative Kevin Brady (R-TX)...**Raymond Plowden** is **Chief of Staff** to Representative John Conyers, Jr. (D-MI)...**Matthew Silver** is **Legislative Director** for Representative Warren Davison (R-OH)...**Aaron Bill** is **Legislative Director** for Representative Phil Roe (R-TN).

**SENATE**- Senator **Marco Rubio** (R-FL) has announced he will seek a second term...**David Polyansky** succeeds **Paul Teller** as **Chief of Staff** to Senator Ted Cruz (R-TX). Polyansky had been Senior Advisor to Cruz's presidential campaign.

**U.S. ASSOCIATION OF FORMER MEMBERS OF CONGRESS**- The **Executive Committee** for 2016-2017 is: **Cliff Stearns** (R-FL, 1989-2013), **President**; **Martin Frost** (D-TX, 1979-2005), **Vice President**; **Thomas Petri** (R-WI, 1979-2015), **Treasurer**; and **Karen Thurman** (D-FL, 1993-2003), **Secretary**.

## FOREIGN EMBASSIES

**AMBASSADORS**- New are: **Essomba Eoundi**, former Ambassador to Israel, for **Cameroon**; **Dr. Leonidas Pantelides**, former Permanent Representative of Cyprus to the UN in Geneva, for **Cyprus**; **Dr. Claudia Ivette Canjura de Centeno**, El Salvador's Ambassador to Russia, for **El Salvador**; **Theocharis Lalcos**, former Ambassador to Macedonia, for **Greece**; **Gladys Marithza Ruiz Sanchez** for **Guatemala**; **The Holy See - Christophe Pierre**, previously Apostolic Nuncio to Mexico; **Dina Khalil Tawfiq Kawar**, previously Jordan's Permanent Representative to the UN, for **Jordan**; **Kurt Jäger**, currently Liechtenstein's Ambassador to the European Union, for **Liechtenstein**; **Sylvie Lucas**, currently Luxembourg's Ambassador to the United Nations, for **Luxembourg**; **Mohamedoun Daddah**, former Director of International Cooperation at the Ministry of Foreign Affairs and Cooperation, for **Mauritania**; and **Anthony Wayne Jerome Phillips Spencer** for **Trinidad and Tobago**...Departing: **Ambassador Andris Razans** of **Latvia**.

## INTERNATIONAL ORGANIZATIONS

**EUROPEAN UNION**- **Slovakia** has assumed the rotating six-month **Presidency** of the **Council of the EU**...**Helga Schmid** of Germany is the new **Secretary General** of the **European External Action Service (EEAS)**.

**INTERNATIONAL MONETARY FUND- Min Zhu, Deputy Managing Director**, will step down when his term expires in July 2016. **Tao Zhang**, currently Deputy Governor of the People's Bank of China, has been appointed to succeed Zhu.

**MERCOSUR- Venezuela** was scheduled to assume the rotating presidency of the trade group from Uruguay at the start of July, but the move is being stalled over concerns about the breakdown of democracy in Venezuela.

**UNITED NATIONS- Kazakhstan, Sweden, Ethiopia, and Bolivia** have been elected to the **UN Security Council** for two-year terms starting January 2017...UN Secretary General Ban Ki-Moon has established the **Global Health Crisis Taskforce** to implement recommendations to strengthen the global health architecture. Members are: **Co-Leads** Deputy Secretary General of the UN **Jan Eliasson** (Sweden), and World Bank Group President **Jim Yong Kim** (U.S.), **Dr. Margaret Chan** (China); **Helen Clark** (New Zealand); **Chris Elias** (U.S.); **Anthony Fauci** (U.S.); **Mohamed-Mahmoud Hacen** (Mauritania); **Felicity Harvey** (UK); **Iлона Kickbusch** (Germany); **Anthony Lake** (U.S.); **Yves Lévy** (France); **Poh Lian Lim** (Singapore); **Stephen O'Brien** (UK); **Shigeru Omi** (Japan); and **Elhadj As Sy** (Senegal).

### **ADVISORY COMMITTEES, BOARDS AND COMMISSIONS**

**NATIONAL SCIENCE BOARD- Dr. Arthur Bienenstock**, Special Assistant to the President for Federal Research Policy, has been nominated.

**U.S.-MEXICO ENERGY BUSINESS COUNCIL-** The following have been appointed to the U.S. Section of this new Council launched by the U.S. Departments of Commerce and Energy along with the Mexican government: **Julian Alzate**, Schweitzer Engineering Laboratories, Inc.; **Leslie Beyer**, Petroleum Equipment and Services Association; **R. Craig Breese**, Honeywell; **Matt Card**, Suniva; **Hunter Hunt**, Hung Consolidated Energy, LLC; **Arturo Infanzon**, Westinghouse Electric Company, LLC; **Robert Moran**, Halliburton; **Vernon Murray**, Emerson Process Management; and **Darryl Wilson**, GE Energy Connections.

### **PRIVATE SECTOR, ASSOCIATIONS AND NGOS**

**ATLANTIC COUNCIL-** Former European Commission President **José Manuel Barroso** and former U.S. Ambassador to the EU **Stuart Eizenstat** will lead a new "EuroGrowth Initiative".

**BROOKINGS INSTITUTION-** **David Victor**, previously director of the Program on Energy and Sustainable Development at Stanford, is **Co-Chair** of the **Brookings Initiative on Energy and Climate**.

**CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS)-** **Simond de Galbert**, Visiting Fellow for the Europe Program, is leaving to return to the French diplomatic service.

**COUNCIL OF THE AMERICAS- Christian Gomez** has left the staff and is now an **Economic Growth Advisor for Latin America** at USAID.

**GLOBAL FAIRNESS INITIATIVE-** New to the **Board of Directors** are: **James Boland** of Ireland; **Dr. Mario David** of Portugal; and **Shahnaz Kapadia-Rahat** of Pakistan.

**GLOBAL TRADE & INNOVATION POLICY ALLIANCE-** This new alliance is comprised of think tanks from 11 nations, including China's Shanghai Institute of Science and Technology Policy and India's ICRIER. It is working to boost trade liberalization and international innovation to capitalize on the benefits of globalization. The Washington contact point is the Information Technology and Innovation Foundation.

**NATIONAL ASSOCIATION FOR BUSINESS ECONOMICS-** **Stuart Mackintosh**, Executive Director of the Group of Thirty, has been elected **President**.

**WASHINGTON INTERNATIONAL TRADE ASSOCIATION (WITA)-** New to the **Board of Directors** are: **Nicole Bivens Collinson**, Sandler, Travis & Rosenberg P.A.; **Ralph Carter**, FedEx Express; **Alexander Perkins**, FCA U.S. LLC; and **Lisa Schroeter**, The Dow Chemical Company...**Christine LoCascio** of DISCUS has been appointed to fill Nicole Bivens Collinson's seat on the Board of the Washington International Trade Foundation.

### **PRESIDENTIAL CAMPAIGNS**

**CANDIDATE HILLARY CLINTON-** Two Deputy Labor Campaign Directors are new: **Lori D'Orazio** of AFL-CIO and **Michele Gilliam**, formerly with Senator Bernie Sanders' campaign.

**CANDIDATE DONALD TRUMP-** **Campaign Manager Corey Lewandowski** was let go...**Director of Surrogates Kevin Kellems** and surrogates aide **Erica Freeman** have left the campaign...**Bryan Lanza** from Citizens United is **Deputy Communications Director for Surrogates**...**Karen Giorno** has been promoted to **Senior Political Strategist**...**Kellyanne Conway**, a Republican strategist who previously worked on Senator Ted Cruz's campaign, is **Senior Advisor to the Campaign Chairman** Paul Manafort...Former Republican National Committee communications staffer **Michael Abboud**, formerly with the RNC Communications Department, will be **Communications Coordinator**...**Alan Cobb**, formerly an aide to Kansas Republicans Bob Dole, Pat Roberts and Mike Pompeo, will be **Director of Coalitions**...**Jason Miller**, former staffer for Ted Cruz's presidential campaign, will be **Senior Communications Advisor**...**Dan DiMicco**, former steel executive and real estate mogul, is advising on trade, as is **Peter Navarro**, an Economics Professor at University of California Irvine...**Jim Murphy**, a veteran political operative, is **National Political Director**...**Steven Cheung** is **Director of Rapid Response**. Cheung has worked in communications on several Senate and gubernatorial campaigns...Senator **Jeff Sessions** (R-AL) is **Chair** of the **National Security Advisory Committee**...**Carter Page**, an investment banker and founder of Global Energy Capital LLC, advises the campaign on foreign policy issues.