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# Economic Issues

July 2005

NEWSLETTER NO. 47

## Government Documents

### **05AD568 FOREIGN PORTFOLIO HOLDINGS OF U.S. SECURITIES AS OF JUNE 30, 2004.**

**Department of the Treasury; Federal Reserve Bank of New York;  
Board of Governors of the Federal Reserve System. June 2005.**

This report presents data and analyses on foreign portfolio holdings of U.S. securities. The data are drawn primarily from the latest benchmark survey of foreign holdings of U.S. securities -- a joint undertaking of the U.S. Department of the Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System.

Among the survey's findings:

Foreign holdings of U.S. securities as of June 30, 2004, totaled \$6,006 billion, of which \$5,418 billion were holdings of U.S. long-term securities (original term-to-maturity in excess of one year) and \$588 billion were holdings of U.S. short-term securities.

Foreign holdings of all categories of U.S. securities increased significantly between June 2003 and June 2004. Foreign investors continued to acquire U.S. long-term securities at a faster pace than U.S. investors acquired foreign long-term securities during the June 2003 to June 2004 period.

Residents of Japan were the largest portfolio investors in U.S. long-term securities by a wide margin, followed by residents of the United Kingdom.

Holdings attributed to Europe have far outpaced holdings attributed to other regions, and the gap between European and Asian holdings was little changed in the two most recent surveys.

<http://www.treas.gov/tic/shl2004r.pdf> [pdf format, 198 pages]

### **05AD555 WORLD TRADE ORGANIZATION: GLOBAL TRADE TALKS BACK ON TRACK, BUT CONSIDERABLE WORK NEEDED TO FULFILL AMBITIOUS OBJECTIVES. [GAO-05-538] United States Government Accountability Office (GAO). May 31, 2005; Web-posted June 1, 2005.**

The Committee on Ways and Means of the U.S. House of Representatives asked GAO to provide a status report on the World Trade Organization (WTO negotiations). In this report, the latest in a series, GAO assesses (1) the overall status of the WTO Doha Round negotiations; (2) developments on key negotiating issues since the previous (January 2004) GAO report; and (3) factors affecting progress in the negotiations. To address those objectives, GAO met with and obtained documents from a wide variety of WTO, U.S. and foreign gov-

ernment officials, as well as academic experts and private sector groups (including business associations, law firms, and civil society groups), both in Washington, D.C. and Geneva, Switzerland. GAO also reviewed international tariff and trade data from the WTO and the United Nations.

In this report GAO finds that overall, the Doha Round is behind schedule, but that the global trade talks have regained their footing and achieved some forward momentum since the failed Cancun ministerial. Leadership by both developed and developing nations, an improved process, hard work, and a willingness to compromise resulted in a July 2004 framework agreement widely credited with putting the Doha Round back on track. The negotiating participants with whom GAO spoke are generally pleased that a July 2004 framework agreement and its breakthrough in agriculture reform has succeeded in demonstrating broader commitment to success and effectively breaking the deadlock in the negotiations. Agriculture remains the top issue for many participants, and dissatisfaction with progress on agriculture has held up movement on the other 18 issues on the negotiating agenda. Negotiators report that the July framework has enabled technical negotiations to proceed in a much improved atmosphere, despite political transitions in some countries during the fall of 2004. Nevertheless, those with whom GAO spoke universally stressed that considerable work remains to be done if the Doha Round's promise is to be realized -- particularly because simultaneous agreement on all issues is required for agreement. Moreover, progress thus far in 2005 has proved slower than hoped, causing WTO Director-General Supachai Panitchpadki to sound a warning over prospects for success in Hong Kong.

<http://www.gao.gov/new.items/d05538.pdf> [pdf format, 72 pages]

#### **05AD536 SOCIAL SECURITY REFORM: ANSWERS TO KEY QUESTIONS. [GAO-05-193SP]**

**United States Government Accountability Office (GAO). Web-posted May 19, 2005.**

Social Security benefits are designed to partially replace earnings that workers lose when they retire, become disabled, or die. According to Social Security Administration (SSA) figures, in 2017 Social Security is projected to pay out more cash in benefits than it receives in revenues. After that time, the gap between costs and income grows continuously, and, unless action is taken to close this gap, the trust funds will eventually be depleted, around the year 2041. This special publication from GAO provides answers as to how the Social Security system works, why GAO believes it needs reform, what the basic options are, and how to assess their implications.

<http://www.gao.gov/new.items/d05193sp.pdf> [pdf format, 77 pages]

#### **05AD534 INTERNATIONAL TRADE: TREASURY ASSESSMENTS HAVE NOT FOUND CURRENCY MANIPULATION, BUT CONCERNS ABOUT EXCHANGE RATES CONTINUE. [GAO-05-351].**

**United States Government Accountability Office (GAO). April 19, 2005; Web-posted May 19, 2005.**

The 1988 Trade Act requires the Department of the Treasury to annually assess whether countries manipulate their currencies for trade advantage and to report semiannually on specific aspects of exchange rate policy. Some observers have been concerned that China and Japan may have maintained undervalued currencies, with adverse U.S. impacts, which has brought increased attention to Treasury's assessments. For this report GAO examined (1) Treasury's process for conducting its assessments and recent results, particularly for China and Japan; (2) the extent to which Treasury has met legislative reporting requirements; (3) experts' views on whether or by how much China's currency is undervalued; and (4) the implications of a revaluation of China's currency for the United States.

GAO notes that Treasury has not found currency manipulation under the terms of the 1988 Trade Act since it last cited China in 1994. Treasury officials make a positive finding of currency manipulation only when all the

conditions in the Trade Act are satisfied -- when an economy has a material global current account surplus and a significant bilateral trade surplus with the United States, and is manipulating its currency with the intent to gain an unfair trade advantage. Treasury said that in its 2003 and 2004 assessments, China did not meet the criteria for manipulation, in part because it did not have a material global current account surplus and had maintained a fixed exchange rate regime through different economic conditions. Japan did not meet the criteria in 2003 and 2004 in part because its exchange rate interventions were considered to be part of a macroeconomic policy to combat deflation.

Among experts, says GAO, views differ on policy steps to correct a valuation imbalance in Chinese currency. A revaluation of China's currency could have implications for various aspects of the U.S. economy, although the impacts are hard to predict. They depend on multiple factors, including how much appreciation is passed through to higher prices for U.S. purchasers and the extent to which reduced imports from China are replaced with imports from other countries. In addition to affecting trade-related sectors, a revaluation could have implications for U.S. capital flows.

<http://www.gao.gov/new.items/d05351.pdf> [pdf format, 85 pages]

## Congressional Documents (Transcripts, Hearings, etc.)

### **05AD549 THE QUASI GOVERNMENT: HYBRID ORGANIZATIONS WITH BOTH GOVERNMENT AND PRIVATE SECTOR LEGAL CHARACTERISTICS. [RL30533]**

**Ronald C. Moe and Kevin R. Kosar**

**Library of Congress. Congressional Research Service. Updated May 18, 2005.**

“Quasi government”, virtually by its name alone and the intentional blurring of the governmental and private sectors, is not easily defined. In general, the term is used in two ways: to refer to entities that have some legal relation or association, however tenuous, to the federal government; or to the terrain that hypothetically exists between the governmental and private sectors. For the most part, this report uses the term “quasi government” in the former context, referring to entities with some legal relationship to the federal government. They are, that is, entities that possess legal characteristics of both the governmental and private sectors. These hybrid organizations (e.g., Fannie Mae, National Park Foundation, In-Q-Tel) have grown in number, size, and importance in recent decades.

The quasi government is a controversial subject. To supporters of this trend toward greater reliance upon hybrid organizations, the proper objective of governmental management is to maximize performance and results, however defined. In their view, the private and governmental sectors are alike in their essentials, and thus subject to the same economically derived behavioral norms.

Critics of the quasi government, on the other hand, tend to view hybrid organizations as contributing to a weakened capacity of government to perform its fundamental constitutional duties, and to erosion in political accountability, a crucial element in democratic governance. They tend to consider the governmental and private sectors as being legally distinct, with relatively little overlap in behavioral norms.

Congress is increasingly engaged with the quasi government. The issues run the gamut from enacting legislation to encourage the creation of nonprofit organizations to promote individual national parks, to proposals to strengthen regulation of government-sponsored enterprises such as Fannie Mae, to oversight hearings respecting national security issues at Los Alamos Laboratory.

<http://www.fas.org/sgp/crs/misc/RL30533.pdf> [pdf format, 44 pages]

**05AD539 REPORT TO CONGRESS ON INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICIES.****United States Department of the Treasury. May 17, 2005.**

[Editor's Note: See related entry for GAO's analysis of this report, noted in this issue of ADSURLS -- Item 05AD539; URL: <http://www.gao.gov/new.items/d05351.pdf>.]

This report reviews developments in international economic policy, including exchange rate policy, during the second half of 2004. The report is required under the Omnibus Trade and Competitiveness Act of 1988, which states that: "The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade." After reviewing developments in the United States, the report evaluates exchange rate policies in major economies across five regions of the world - the Western Hemisphere; Europe and Eurasia; Sub-Saharan Africa; the Middle East and North Africa; and South and East Asia.

The report says that no major US trading partner manipulated its exchange rates in the last six months of 2004. However, according to the report, the Treasury "has engaged, and will continue to engage, with several economies, including some in Asia, to promote the adoption of market-based exchange policies and regimes. Most notable among these is China. Current Chinese policies are highly distortionary and pose a risk to China's economy, its trading partners, and global economic growth. Concerns of competitiveness with China also constrain neighboring economies in their adoption of more flexible exchange policies. If current trends continue without substantial alteration, China's policies will likely meet the statute's technical requirements for designation."

[http://www.ustreas.gov/press/releases/reports/js2448\\_report.pdf](http://www.ustreas.gov/press/releases/reports/js2448_report.pdf) [pdf format, 17 pages]

**05AD552 THE EXPORT ADMINISTRATION ACT: EVOLUTION, PROVISIONS, AND DEBATE. [RL31832]****Ian F. Fergusson.****Library of Congress. Congressional Research Service. Updated May 5, 2005.**

The 109th Congress again may consider legislation to rewrite or to reauthorize the Export Administration Act (EAA). EAA confers upon the President the power to control exports for national security, foreign policy or short supply purposes. It also authorizes the President to establish export licensing mechanisms for items detailed on the Commerce Control List (CCL), and it provides some guidance and places certain limits on that authority. The CCL currently provides detailed specifications for about 2,400 dual-use items including equipment, materials, software, and technology (including data and know-how) likely requiring some type of export license from the Commerce Department's Bureau of Industry and Security (BIS).

In debates on export administration legislation, parties often fall into two camps: those who primarily want to liberalize controls in order to promote exports, and those who believe that further liberalization may compromise national security goals. While it is widely agreed that exports of some goods and technologies can adversely affect U.S. national security and foreign policy, some believe that current export controls can be detrimental to U.S. businesses and to the U.S. economy. According to this view, the resultant loss of competitiveness, market share, and jobs can harm the U.S. economy, and that harm to particular U.S. industries and to the economy itself can negatively impact U.S. security. Others believe that security concerns must be paramount in the U.S. export control system and that export controls can be an effective method to thwart proliferators, terrorist states, and countries that can threaten U.S. national security interests. Controversies have arisen with regard to particular exports such as high performance computers, encryption technology, stealth materials, sat-

ellites, machine tools, “hot-section” aerospace technology, and the issue of “deemed exports.” The competing perspectives on export controls have clearly been manifested in the debate over foreign availability and the control of technology, the efficacy of multilateral control regimes, the licensing process and organization of the export control system, and the economic effects of U.S. export controls.

<http://www.fas.org/sgp/crs/secretcy/RL31832.pdf> [pdf format, 25 pages]

## White House

### **Bush Announces Top Priorities on U.S. Trade Agenda (2005-05-17)**

Passage of the Central American and Dominican Republic Free Trade Agreement (CAFTA-DR) is one of the top U.S. trade priorities, President Bush says.

In May 17 in remarks at the ceremonial swearing in of U.S. Trade Representative Robert Portman, Bush listed other priorities as completing World Trade Organization (WTO) negotiations and enforcing trade agreements, citing specifically commitments by China.

The president urged Congress to pass CAFTA-DR, which he said would not only make the Western Hemisphere more competitive with Asia but also would strengthen democracy in the region, as well as open additional markets and lower trade barriers in key industries like textiles for U.S. businesses and farmers.

"This would put CAFTA countries and America in a better position to compete with low-cost producers in Asia," he said.

Portman said that if the United States rejects the agreement "we are taking away opportunities for our workers, and we are turning our backs on good neighbors who need our help."

On the WTO negotiations, formally called the Doha Development Agenda, the president said an agreement would reduce tariffs in key industry sectors, lower unfair agricultural subsidies and open the global market in services.

Bush cited a number of issues, including piracy of U.S. intellectual property and barriers to goods and services, where China still must meet existing WTO commitments.

"When it joined the WTO, China also agreed to the rules of international trade, and it's in the interest of both China and the United States for China to abide by them," Bush said.

<http://www.uspolicy.be/Article.asp?ID=B1314A0B-98EF-408D-ACE0-A365C5FA774D>

### **05AD511 2005 SPECIAL 301 REPORT. [ON INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION]**

**Executive Office of the President. Office of the United States Trade Representative (USTR). April 29, 2005.**

The “Special 301 Report” is the U.S. Trade Representative’s (USTR’s) annual report on the adequacy and effectiveness of intellectual property rights (IPR) protection around the world. Despite progress by some countries, the 2005 report finds that weak IPR protection continues to be a serious problem and calls for tough actions to combat global piracy and counterfeiting. Among problems identified in this year's Special 301 Report are piracy of copyrighted works in Ukraine, China, Paraguay, Brazil, Russia, India, Thailand, Bulgaria, Pakistan and other markets and inadequate protection against unfair commercial use for test data submitted by drug companies to health authorities in Israel, Turkey and elsewhere.

Countries identified as Priority Foreign Countries can be subjected to a Section 301 investigation and face the possible threat of trade sanctions. These are countries that fail to enter into good faith negotiations or make significant progress in bilateral or multilateral negotiations to provide adequate and effective protection of IPR. Currently, one country (Ukraine) is designated to be in this category and remains subject to \$75 million in sanctions.

This year's report lists fourteen trading partners on the Priority Watch List. These countries are: Argentina, Brazil, China, Egypt, India, Indonesia, Israel, Kuwait, Lebanon, Pakistan, the Philippines, Russia, Turkey, and Venezuela.

Thirty-six trading partners are placed on the Watch List, meriting bilateral attention to address the underlying IPR problems. These countries or economies are: Azerbaijan, Bahamas, Belarus, Belize, Bolivia, Bulgaria, Canada, Chile, Colombia, Costa Rica, Croatia, Dominican Republic, Ecuador, European Union, Guatemala, Hungary, Italy, Jamaica, Kazakhstan, Korea, Latvia, Lithuania, Malaysia, Mexico, Peru, Poland, Romania, Saudi Arabia, Slovakia, Taiwan, Tajikistan, Thailand, Turkmenistan, Uruguay, Uzbekistan, and Vietnam.

The report also presents the results of USTR's special Out-of-Cycle Review (OCR) of China's intellectual property regime, and concludes that infringement levels remain unacceptably high throughout China, in spite of Beijing's efforts to reduce them. As a result of the OCR, USTR has elevated China to the Priority Watch List because of serious concerns about China's compliance with its obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and its Joint Commission on Commerce and Trade (JCCT) commitments.

[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2005/2005\\_Special\\_301/asset\\_upload\\_file195\\_7636.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_Special_301/asset_upload_file195_7636.pdf)  
[pdf format, 65 pages]

## Think Tanks and International Organizations

### AMERICAN ENTERPRISE INSTITUTE

#### **How to Save Social Security Reform**

**By James K. Glassman**

**Posted: Monday, July 18, 2005**

**ARTICLES, Scripps Howard News Service**

**Publication Date: July 18, 2005**

Since his re-election, President Bush has pushed hard for reform of Social Security, but he's made little headway on his proposal to let Americans divert part of their payroll taxes to personal investment accounts. Polls show the public split roughly 50-50 on personal accounts. But most of the support comes from young people, who are apathetic politically, and confidence in Bush's own "ability to make the right decisions about Social Security" is weak and falling - down to just 27 percent last month, according to a CBS News/New York Times survey.

It's time for a new approach.

[http://www.aei.org/publications/pubID.22860,filter.all/pub\\_detail.asp](http://www.aei.org/publications/pubID.22860,filter.all/pub_detail.asp)

## ASIAN DEVELOPMENT BANK (ADB)

### **Measuring the Economic Costs of Conflict: The Effect of Declining Development Expenditures** **Sungsup Ra and Bipul Singh**

**Working Paper Series No. 2 Nepal Resident Mission, June 2005**

Using the Nepal Macro-model, this study measures the economic costs of the conflict, and the effect of declining development expenditures on Nepal's economic development.

<http://www.adb.org/Documents/Papers/NRM/wp2.pdf>

## BROOKINGS INSTITUTION

### **Tax Policies to Help Working Families in Cities** **by Alan Berube, William G. Gales, and Tracy Kornblatt** **June 2005**

This paper examines ways that federal tax policy could improve the economic prospects of low- and middle-income working families in cities. We show how existing federal tax rules affect these families, and that a variety of public policies are available to provide better economic opportunities and incentives for these households. In particular, policies that expand and modify the child care and dependent care tax credit, the saver's credit, and subsidies for health insurance, or that alter the structure of homeownership subsidies away from deductions and toward capped credits for homeownership, have the potential to improve economic prospects for millions of working families who live in urban areas. The significant link between federal tax policies and the welfare of households in cities is an area of growing awareness and increasing importance and should receive the attention of both urban leaders and federal policy makers in the future.

[http://www.brook.edu/metro/pubs/200506\\_taxpolicies.htm](http://www.brook.edu/metro/pubs/200506_taxpolicies.htm)

Full Report in PDF (397KB): [http://www.brook.edu/metro/pubs/200506\\_Taxpolicies.pdf](http://www.brook.edu/metro/pubs/200506_Taxpolicies.pdf)

### **Credit Where It Counts: Maintaining a Strong Community Reinvestment Act** **by Michael S. Barr May 2005**

The Community Reinvestment Act (CRA) has helped to revitalize low- and moderate-income communities and provided expanded opportunities for low- and moderate-income households. Recent regulatory steps aimed at alleviating burdens on banks and thrifts are unwarranted, and may diminish small business lending as well as community development investments and services. This policy brief explains the rationale for CRA, demonstrates its effectiveness, and argues that the recent regulatory proposals should be withdrawn or significantly modified.

[http://www.brook.edu/metro/pubs/20050503\\_cra.htm](http://www.brook.edu/metro/pubs/20050503_cra.htm)

Full Report in PDF (135KB) : [http://www.brook.edu/metro/pubs/20050503\\_cra.pdf](http://www.brook.edu/metro/pubs/20050503_cra.pdf)

### **Paying Less For Real Estate Brokerage: What Can Make It Happen?**

**AEI-Brookings Joint Center Working Paper 05-11, June 27, 2005**

**Robert W. Hahn, Executive Director, AEI-Brookings Joint Center; Robert E. Litan, Director, AEI-Brookings Joint Center; Jesse Gurman, Research Assistant, Economic Studies**

This paper provides an economic analysis of the residential real estate brokerage industry. We find that the traditional model for residential real estate brokerage services may be dated, and could be improved substantially with some public policy interventions that spur innovation.

We believe that there are numerous barriers to entry that are slowing the emergence of new models for serving consumers. Some of these barriers are likely to be anti-competitive. Examples include discrimination against new brokerage models and online brokers who wish to join multiple listing services; state legislation that would require minimum service requirements, effectively preventing "a la carte" offerings; and prohibitions by real estate commissions on providing rebates to customers. In our opinion, none of these practices should be allowed.

We offer three broad policy recommendations: First, federal and state antitrust authorities should carefully scrutinize efforts to limit competition in the residential real estate brokerage market. Second, state governments should refrain from adopting laws or rules that inhibit competition in real estate brokerage. Third, Congress should allow the Federal Reserve Board and the Treasury Department to permit banks, which have long been natural potential entrants into this business, to offer residential real estate brokerage services through separately capitalized affiliates.

<http://www.brook.edu/views/papers/litan/20050627.htm>

View Full Paper (PDF—148kb)

<http://aei-brookings.org/admin/authorpdfs/page.php?id=1159>

### **Financial Liberalization, Financial Sector Development and Growth: Evidence from Malaysia Brookings Discussion Papers in International Economics No. 168, June 2005**

**James B. Ang, The Australian National University, Canberra**

**Warwick J. McKibbin, Nonresident Senior Fellow, Economic Studies**

The objective of this paper is to examine whether financial development leads to economic growth or vice versa in the small open economy of Malaysia. We argue that the results obtained from cross-country studies are not able to address this issue satisfactorily and highlight the importance of country specific studies. Using time series data from 1960 to 2001, we conduct co-integration and various causality tests to assess the finance-growth link by taking saving, investment, trade and real interest rate into account. Contrary to the conventional findings, our results support the view that output growth causes financial depth in the long-run.

[http://www.brook.edu/views/papers/200506\\_bdpie168.htm](http://www.brook.edu/views/papers/200506_bdpie168.htm)

View full paper — (PDF - 118KB)

[http://www.brook.edu/views/papers/200506\\_bdpie168.pdf](http://www.brook.edu/views/papers/200506_bdpie168.pdf)

## **CENTER ON BUDGET AND POLICY PRIORITIES**

### **DEFICITS FRAME COMING DEBATE ON ESTATE TAX**

**by Ruth Carlitz July 8, 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.

Later this summer, the Senate is expected to vote on the fate of the estate tax. While this will not be the first time that lawmakers have expressed their views on whether the tax should be repealed, the upcoming vote will occur in a sharply different fiscal context than earlier votes. As Senator Ron Wyden (D-Ore.), who has voted to repeal the estate tax in the past, recently noted, "The deficit picture is different today and the choices are pretty darn hard.

The deficits that dominate the current fiscal outlook stand in stark contrast to the surpluses that were forecast when past votes on estate tax repeal were taken. In addition, Congress will be facing votes this summer and fall on measures to institute cuts in a range of domestic programs. The trade-offs associated with repealing or

dramatically curtailing the estate tax are becoming more evident than they were in the recent past.

<http://www.cbpp.org/7-8-05tax.htm>

PDF of full report: <http://www.cbpp.org/7-8-05tax.pdf>

## ECONOMIC POLICY INSTITUTE

### **Two Steps Back**

**African Americans and Latinos will lose ground under Social Security "reform"**

**by Ross Eisenbrey and William Spriggs**

**Issue Brief #212 July 14, 2005**

The United Airlines pension debacle, the president's Social Security proposal, and the coming debate about tax incentives for saving are all prompting a re-examination of U.S. retirement policies and programs. At such a time, it is essential to understand the significant racial differences in the effects of these policies. The policy mix over the past two decades, which has favored savings in individual tax-deferred accounts at the expense of defined-benefit pension plans, has contributed to retirement income inequality and left millions of minority households without sufficient resources to retire in comfort or dignity. Two of every five minority households nearing retirement can expect retirement income that is less than double the poverty level.

The one bright spot in this picture is Social Security, which is pivotal to minorities' retirement security, and which grew faster for African American and Latino households than for whites from 1989 to 2001. Social Security's progressive benefit structure and virtually universal coverage helped ameliorate the lack of gains in other retirement wealth for these minorities. But Social Security "reform" that makes Social Security more like a private defined-contribution account and less like a defined-benefit plan is likely to hurt minorities and exacerbate their vulnerability to employment cycles.

<http://www.epi.org/content.cfm/ib212>

## HERITAGE FOUNDATION

### **5.0 Percent Unemployment: Better Than Good**

**by Tim Kane, Ph.D.**

**WebMemo #788 July 8, 2005**

Today's Employment Situation report from the Labor Department seems like unambiguously positive news across the board: jobs are up, unemployment is down, earnings are up, and the duration of unemployment spells is down. But it contains a real surprise: the unemployment rate keeps trending down below expectations and now stands at 5.0 percent. While conventional wisdom is stuck in the mindset that the U.S. economy is weak, the data continue to say otherwise.

<http://www.heritage.org/Research/Economy/wm788.cfm>

### **Trade Deficits, Dollars, and China: Wrong Lessons Make Dangerous Policy**

**by Tim Kane, Ph.D., and Marc Miles, Ph.D.**

**WebMemo #743 May 12, 2005**

The March trade deficit fell back from its record high in February, according to numbers released by the Commerce Department this week. So does this mean we are out of the woods? There is a better question to ask: What woods? Despite cries of impending doom, the U.S. economy continues to expand faster than all other advanced economies. In the just-ended quarter, even with a record-level trade deficit, the U.S. economy grew at a 3.1 percent rate, four times faster than Germany, which consistently runs a trade surplus. Could it be that trade

deficits are not a drag on growth?

<http://www.heritage.org/Research/Economy/wm743.cfm>

## **INSTITUTE FOR INTERNATIONAL ECONOMICS**

### **Curbing the Boom-Bust Cycle: Stabilizing Capital Flows to Emerging Markets**

**by John Williamson**

**Policy Analyses in International Economics 75**

**July 2005 144 pp. ISBN paper 0-88132-330-6 \$22.95**

International investors poured vast sums of money into East Asian and Latin American countries during the mid-1990s, when the emerging market boom was at its peak. Then Thailand stumbled and panic seized the markets, and boom gave way to bust. Investors suffered large financial losses, while Asian countries suddenly experienced large capital outflows and the macroeconomic pressures these wrought plunged countries that had been growing rapidly (“miraculously”) into crisis. Much the same had happened in Latin America when the debt crisis broke in 1982. This book investigates what can be done to make the international capital market a constructive force in promoting development in emerging markets. The author concludes that the problem of cyclicity that has undermined the value of international borrowing cannot be tackled just, or even mainly, from the supply side, but will require actions on the part of both creditors and debtors.

[http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product\\_Code=3306](http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=3306)

### **American Trade Politics, 4th edition**

**by I. M. Destler**

**June 2005 ISBN 0-88132-382-9 \$27.95**

In this comprehensive revision of the most influential, widely read analysis of the US trade policymaking system, Destler addresses how globalization has reshaped trade politics, weakening traditional protectionism but intensifying concern about trade’s societal impacts. Entirely new chapters treat the deepening of partisan divisions and the rise of “trade and . . .” issues (especially labor and the environment). The author concludes with a comprehensive economic and political strategy to cope with globalization and maximize its benefits. The original edition of American Trade Politics won the Gladys Kammerer Award of the American Political Science Association for the best book on US national policy.

[http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product\\_Code=3829](http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=3829)

### **After “Non” and “Nee”: Plans B, C, and D for the European Constitution**

**Daniel Gould**

**Institute for International Economics, June 2, 2005**

The proposed European Constitution, which was just voted down in France and the Netherlands, is technically a treaty containing far-reaching amendments to the present set of treaties governing the European Union. Article 48 of the EU treaty text currently in force specifies that any such amendments first be unanimously approved by the governments of the member states within an Inter-Governmental Conference framework and then ratified by each country. The first, intergovernmental step of ratification was completed October 29, 2004.

What has run aground now with the French and Dutch referenda is the second step—required, unanimous ratification by European member states. The likely halt to efforts to ratify the current document will force a reconsideration of the European Union’s legal alternatives for governance.

<http://www.iie.com/publications/papers/gould0605.pdf>

## INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE (IFPRI)

### **The Family Farm in a Globalizing World; The Role of Crop Science in Alleviating Poverty**

**Michael Lipton**

**2020 Discussion Paper No. 40 June 2005**

Family farms are operated units that derive most labor and enterprise from the farm family. They have proved resilient, even in the rich world, and small family farms dominate agriculture in East and South Asia and Sub-Saharan Africa. Yet these are areas of concentrated poverty: in 2004, they contained over 92 percent of the world's 1.1 billion "dollarpoor" (households consuming less than one U.S. dollar's worth of a world average consumption bundle, per person per day, at 1993 purchasing-power-parity values). Kickstarting the reduction of mass dollar poverty normally requires accelerated growth of staples output on family farms. Whether this is feasible and sufficient depends on national political and economic incentives and institutions to create and apply appropriate crop science, land and water access, and open markets in the context of appropriate state-led provision of public and merit goods. Many Asian and Latin American countries have gone a long way on this path, but they still have far to go. Much of Africa has hardly started. Progress is made possible by new science and by a crucial demographic shift—but is handicapped by rich-world policies towards agriculture, trade, and science.

<http://www.ifpri.org/2020/dp/vp40.asp>

Full text: <http://www.ifpri.org/2020/dp/vp40.asp#dl>

## INTERNATIONAL MONETARY FUND

### **05AD564 AID AND GROWTH: WHAT DOES THE CROSS-COUNTRY EVIDENCE REALLY SHOW?**

**[International Monetary Fund Working Paper - WP/05/127]**

**Raghuram Rajan and Arvind Subramanian.**

**June 1, 2005.**

The authors examine the effects of aid on growth, after correcting for the bias that aid typically goes to poorer countries, or to countries after poor performance. Even after this correction, they find little robust evidence of a positive (or negative) relationship between aid inflows into a country and its economic growth. They also find no evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others.

Their findings, which relate to the past, do not imply that aid cannot be beneficial in the future. But they do suggest that for aid to be effective in the future, the aid apparatus will have to be rethought. Their findings raise the question: What aspects of aid offset what ought to be the indisputable growth enhancing effects of resource transfers? Thus, the authors' findings support efforts under way at national and international levels to understand and improve aid effectiveness.

<http://www.imf.org/external/pubs/ft/wp/2005/wp05127.pdf> [pdf format, 49 pages]

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

### **05AD551 AFRICAN ECONOMIC OUTLOOK 2004/2005. [OVERVIEW AND COUNTRY STUDIES] Organisation for Economic Co-operation and Development (OECD). May 17, 2005.**

This fourth edition of the African Economic Outlook reviews the recent economic situation and the short-term

evolutions of African countries. It includes an overview of the continent, 29 country notes, a statistical annex and a focus on small and medium enterprises issues in Africa. The bulk of the report contains for each of each country a 20-page study presented according to a common analytical framework that includes a forecasting exercise for the next two years, based on a simple macroeconomic model, together with an analysis of the social and political context.

Country coverage comprises:

\* North Africa: Algeria, Egypt, Morocco and Tunisia.

\* West Africa: Benin, Burkina Faso, Côte d'Ivoire, Ghana, Mali, Niger, Nigeria and Senegal.

\* Central Africa: Cameroon, Chad, the Republic of Congo, the Democratic Republic of Congo, Gabon and Rwanda.

\* East Africa: Ethiopia, Kenya, Madagascar, Mauritius, Tanzania and Uganda.

\* Southern Africa: Angola, Botswana, Mozambique, South Africa and Zambia.

Table of Contents:

[http://www.oecd.org/document/16/0,2340,en\\_2649\\_201185\\_34864528\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/16/0,2340,en_2649_201185_34864528_1_1_1_1,00.html) [Sections in html format, various sizes]

## RAND

### **China and Globalization**

**WILLIAM H. OVERHOLT, Asia Policy Chair**

**Director, Center for Asia Pacific Policy**

**Testimony presented to the U.S.-China Economic and Security Review Commission on May 19, 2005**

China has transformed itself from the world's greatest opponent of globalization, and greatest disrupter of the global institutions we created, into a committed member of those institutions and advocate of globalization. It is now a far more open economy than Japan and it is globalizing its institutions to a degree not seen in a big country since Meiji Japan. Adoption of the rule of law, of commitment to competition, of widespread use of English, of foreign education, and of many foreign laws and institutions are not just updating Chinese institutions but transforming Chinese civilization.

All of China's economic successes are associated with liberalization and globalization, and each aspect of globalization has brought China further successes. Never in world history have so many workers improved their standards of living so rapidly. Thus popular support for globalization is greater than in Japan, where post-war recovery occurred in a highly managed economy, or with the former Soviet Union, where shock therapy traumatized society. In consequence, China has effectively become an ally of U.S. and Southeast Asian promotion of freer trade and investment than is acceptable to Japan, India and Brazil.

[http://www.rand.org/pubs/testimonies/2005/RAND\\_CT244.pdf](http://www.rand.org/pubs/testimonies/2005/RAND_CT244.pdf)

## UNITED NATIONS

### **The Millennium Development Goals Report 2005**

**United Nations, New York, June 2005**

The adoption of the Millennium Development Goals, drawn from the United Nations Millennium Declaration, was a seminal event in the history of the United Nations. It constituted an unprecedented promise by world leaders to address, as a single package, peace, security, development, human rights and fundamental freedoms. As I said in my March 2005 report en-

titled “In larger freedom: towards development, security and human rights for all”, to which the present report is a complement: “We will not enjoy development without security, we will not enjoy security without development, and we will not enjoy either without respect for human rights. Unless all these causes are advanced, none will succeed.”

<http://unstats.un.org/unsd/mi/pdf/MDG%20Book.pdf>

## WORLD BANK

### **Bosnia & Herzegovina's Transformation, Success and Remaining Challenges**

**July 10, 2005**

-- Ten years ago, Bosnia and Herzegovina, a small mountainous country in South East Europe, was on its knees.

After three years of war and misery, half the country's population was displaced as refugees, two-thirds of the homes were destroyed, and half the population was left without access to clean water. Today, schools, roads, health clinics and houses have been rehabilitated. The country's GDP has tripled, merchandise exports are up tenfold and prices are stable with the inflation under 1%.

Last year the World Bank reclassified the country from a post-conflict to a transition country.

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20576005~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>

### **Lending Rises, Quality Remains High - World Bank Releases Results for FY 05**

**Press Release No:2006/026/S**

WASHINGTON, July 14, 2005— Financial support provided by the World Bank to developing countries rose to \$22.3 billion in fiscal year 2005, which ended June 30, for 279 projects worldwide. This is an increase of \$2.2 billion over the previous year.

Of this amount, \$13.6 billion was in financing to mostly middle-income countries from the International Bank for Reconstruction and Development (IBRD) for 118 projects; and \$8.7 billion was mostly in the form of no-interest loans or grants to the poorest countries from the International Development Association (IDA), for 161 projects. By comparison, total IBRD and IDA lending commitments were \$20.1 billion in FY04, including \$11 billion from IBRD, and \$9 billion from IDA.

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20582147~menuPK:51062075~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

### **05AD546 OLD-AGE INCOME SUPPORT IN THE 21ST CENTURY: AN INTERNATIONAL PERSPECTIVE ON PENSION SYSTEMS AND REFORM.**

**Robert Holzmann, Richard Hinz, and others.**

**World Bank. Web-posted May 24, 2005.**

This World Bank report says that growing demographic and economic pressures are forcing both developing and developed countries to undertake urgent pension reform. According to the report, more women in the global workforce, changing employment patterns in the global economy, rising budget deficits, and rising numbers of elderly are making the case for pension reform unavoidable. The authors underline the continued relevance of the main objectives of pension systems -- poverty alleviation and consumption smoothing -- and of the broader goal of social protection.

The authors recommend a “multi-pillar” pension system that is composed of some combination of five basic elements: (a) a noncontributory or “zero pillar” (in the form of a periodic transfer payment to each resident; also known as a “demogrant” or social pension) that provides a minimal level of protection; (b) a “first-pillar” contributory system that is linked to varying degrees to earnings and seeks to replace some portion of income;

(c) a mandatory “second pillar” that is essentially an individual savings account but can be constructed in a variety of ways; (d) voluntary “third-pillar” arrangements that can take many forms (individual, employer sponsored, defined benefit, defined contribution) but are essentially flexible and discretionary in nature; and (e) informal intrafamily or intergenerational sources of both financial and nonfinancial support to the elderly, including access to health care and housing.

[Note: Contains copyrighted material.]

Full Report:

[http://siteresources.worldbank.org/INTPENSIONS/Resources/Old\\_Age\\_Income\\_Support\\_Complete.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/Old_Age_Income_Support_Complete.pdf)

[English-language, pdf format, 228 pages]

Executive Summary:

[http://siteresources.worldbank.org/INTPENSIONS/Resources/Old\\_Age\\_Income\\_Support\\_Intro.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/Old_Age_Income_Support_Intro.pdf)

[English-language, pdf format, 20 pages]

## WORLD TRADE ORGANIZATION (WTO)

### WTO Annual Report 2005

15 July 2005

Dr. Supachai Panitchpakdi, in his foreword to the WTO Annual Report 2005 issued on 15 July 2005, said that to mark the 10th anniversary of the WTO this year's annual report includes a special section “to review some of the important developments in the WTO since 1995 and to identify some of the challenges that lie ahead”.

[http://www.wto.org/english/res\\_e/booksp\\_e/anrep05\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep05_e.pdf)

## Articles from U.S. Journals

### AA05205 WHAT DOES IT TAKE TO HELP THE POOR?

Baldacci, Emanuele, Et Al.

*Finance & Development* Vol. 42, No. 2, June 2005, pp. 20-23

Summary: The authors say that spending on education and health can boost human capital in poor countries and help them to reach the Millennium Development Goals (MDGs), but only if governments are held accountable. The authors suggest growth policy strategies based on their study of the interactions between various combinations of social spending, governance and social development. Although not a panacea, they write, spending increases should be accompanied by efforts to improve both the efficiency and targeting of public spending. Social spending will be more effective in countries with better governance and lower levels of government expenditure since the marginal returns to social spending tend to decline for countries that already spend substantially in these areas, they explain. [ES;LCJ]

### AA05206 CULTIVATING MINDS

Cohen, Joel; Bloom, David

*Finance & Development* Vol. 42, No. 2, June 2005, pp. 9-14

Summary: The World Bank, UNICEF and UNESCO have estimated that achieving universal primary educa-

tion by 2015 will cost between \$9.1 billion and \$35 billion per year, the authors report. But, they note, scarce funds in developing countries have competition from equally compelling needs for spending on development, such as health and physical infrastructure. Additional obstacles to achieving educational goals include economic incentives to keep children out of school; and cultural barriers, particularly for girls and minorities, they say. The authors recommend five steps to improve education for the world's children: clearly defining educational goals based on national, regional and international needs; commitment to improving the effectiveness and economic efficiency of education in achieving those goals; commitment to extending high-quality secondary education to all children; international recognition of the diverse character of educational systems in different countries; and more money and higher priority for education -- especially in the amount of funding from rich countries. [ES;LCJ]

#### **AA05207 ANTI-MONEY LAUNDERING OVERKILL?**

**Reuter, Peter; Truman, Edwin**

**International Economy Vol. 19, No. 1, Winter 2005, pp. 56-60**

Summary: There are no systematic estimates of the scale of money laundering, nor has cost-effectiveness been measured for the international set of anti-money laundering (AML) standards developed by the Financial Action Task Force (FATF), note Reuter and Truman. In response to the current AML regime, they say, it is widely assumed that many money launderers simply moved their business to less regulated avenues. Although FATF would like to widen the array of institutions and activities it monitors in order to catch more of these mobile crimes, the authors say there should be a careful assessment of the achievements of the existing AML regime before it is expanded. [ES;LCJ]

#### **AA05191 EVERY EMPLOYEE AN OWNER. REALLY.**

**Rosen, Corey; Case, John; Staubus, Martin**

**Harvard Business Review Vol. 83, No. 6, June 2005, pp. 122-130**

Summary: Studies show that broad-based employee ownership, when done right, leads to higher productivity, lower workforce turnover, better recruits, and bigger profits, the authors say. Successful employee ownership programs include equity sharing for most full-time employees, and managers who openly share financial information. Informed group ownership, they explain, causes employees to internalize their responsibilities and feel an obligation not only to management, but also to one another -- a boon to any business. [ES;LCJ]

#### **AA05190 STRATEGIES THAT FIT EMERGING MARKETS**

**Khanna, Tarun; Pelepu, Krishna; Sinha, Jayant**

**Harvard Business Review Vol. 83, No. 6, June 2005, pp. 63-76**

Summary: Finding successful business strategies for entering new international markets can be difficult, particularly in emerging markets where there are "institutional voids", such as a lack of specialized intermediaries or the absence of regulatory systems and methods for enforcing contracts, the authors say. They explain that businesses considering investment need to consider several factors -- a country's political and social systems, its degree of openness, and its product, labor and capital markets. This greater understanding of the business environment can help businesses take advantage of a location's unique strengths, they write. [ES;LCJ]

**AA05189 GROWTH, INEQUALITY AND POVERTY: SOME HARD QUESTIONS****Kanbur, Ravi****Journal of International Affairs Vol. 58, No. 2, Spring 2005, pp. 223-232**

Summary: Kanbur, Professor of Economics at Cornell University, discusses some of the difficulties of determining how to reduce poverty and what criteria provide the best measures of progress. For example, he notes that while it seems obvious that economic growth should be good for the poor, -- what if the growth is accompanied by increased inequality? Or, he asks, if the total number of poor goes up, but because of overall population growth, the percentage of poor actually goes down -- has poverty gone up or down? Each of these issues needs more study in order to increase understanding of all the variables that impact poverty, writes Kanbur. [ES;LCJ]

**AA05188 ON THE MONEY TRAIL****Hall, Robert****The World Today Vol. 61, No. 5, May 2005. pp. 20-22**

Summary: The private sector plays a major role in unraveling the money trail that finances terrorism, says Hall, corporate security manager for Barclays Bank. On top of the plethora of rules from national and international groups involved in combating terrorist finance, a group of the world's largest banks has voluntarily developed the Wolfsberg anti-money laundering principles, which offers worldwide guidelines to combat money laundering and financial crime, he writes. The long-term goal of disrupting terrorist networks and arresting their principals should remain the primary focus, says Hall; therefore, gathering intelligence needs to take precedence over the private sector's laudable but secondary goal of recovering illicit funds. [ES;LCJ]

**AA05173 CHINA'S ECONOMIC GROWTH: SOURCE OF DISORDER?****Wang, Robert****Foreign Service Journal May 2005, pp. 18-23**

Summary: China's rapid economic growth has raised concerns about its ramifications for the region and the rest of the world, says Wang. However, he cautions, it is important to put China's emergence in proper perspective: its 2004 GDP of \$1.65 trillion is still about one-seventh that of the United States, one-third that of Japan, and about the size of the British economy. Beijing faces an increasingly difficult task in reforming its financial system, and needs to restructure its relatively inefficient state-owned enterprises that still account for nearly half of its economy. China also faces severe infrastructure and resource constraints. Assuming China's economy continues to grow in spite of its many challenges, it is in the best interest of the international community -- both economically and politically -- to make room for it and other developing economies, he notes. Support for further integration into the global community will help ensure that the required adjustments in the world order promote stability rather than instability, explains Wang. [ES;LCJ]

**AA05172 GLOBALIZATION AND ITS CONTENTS****Marber, Peter****World Policy Journal Vol. 21, No. 4, Winter 2004/2005, pp. 29-37**

Summary: Marber, a professor at Columbia University's School of International and Public Affairs, says emotion and confusion have tainted the globalization debate both in the United States and abroad. Behind all the

negative headlines about globalization lies a story of human progress and promise that should make even the most pessimistic analysts rethink their views on globalization, he writes. Globalization is too often cited as creating a variety of human miseries such as sweatshop labor, civil war, and corruption, when it is poverty that is more at the root of such miseries, he notes. We often forget that poverty was the human living standard for most of recorded history, he explains, and until approximately 200 years ago, virtually everyone lived at subsistence level. It was the technology, education and increased trade of globalization that changed this. Globalization does often have short-term negative effects on specific markets, says Marber, but learning to manage these downtrends as well as the up-cycles should be our consistent aim in both government and the marketplace. After all, he points out, the alternative to globalization is economic stagnation. [ES;LCJ]

#### **AA05171 MEASURING GLOBALIZATION**

**Foreign Policy No. 148, May/June 2005, pp. 52-60**

Summary: This article reports on the fifth annual A.T. Kearney/Foreign Policy Globalization Index for 2003, which ranks 62 countries on political, economic, personal and technological globalization. The article reports, among other things, that despite early 2003 troubles -- slow trade growth of less than one percent -- brought on by the Iraq War, trade jumped more than 5 percent in the second half of 2003. Also, Global development aid increased dramatically worldwide -- the United States provided the largest increase, boosting its foreign aid by more than 20 percent. This article also compares globalization rankings with the Index of Freedom and the Corruption Index -- effectively graphing the strong correlation between globalization, freedom and good governance. A comparison with the Patterns of Global Terrorism rankings revealed a weak connection between globalization and terrorism; and a comparison with World Bank data on public education showed a positive relation, especially in developing countries, between education spending and globalization. [ES;LCJ]

#### **AA05157 AID WITH STRINGS**

**Zeller, Shawn**

**Government Executive Vol. 37, No. 6, 15 April 2005, pp. 24-25**

Summary: Paul Applegarth, chief executive officer of a new federal agency, the Millennium Challenge Corporation (MCC), is trying to rebuild faith in foreign aid, says Zeller. Critics of foreign aid believe much of the monies are mismanaged or lost to corruption, and therefore wasted, so the MCC is changing the way aid funds are dispersed by targeting only to those countries that demonstrate the ability and commitment to use it wisely, he writes. MCC eligible countries must be from among the poorest, he notes, and they must prove commitment to ruling justly, investing in people, and economic freedom. To encourage real changes in how aid is managed, the MCC operates outside the old civil service system, relies heavily on contractors and has a small staff, writes Zeller. [ES;LCJ]

#### **AA05156 DEMOCRACY AND THE DOMINANCE OF DELAWARE IN CORPORATE LAW**

**Greenfield, Kent**

**Law and Contemporary Problems vol. 67, no. 4, Autumn 2004, pp. 135-146**

Summary: The author, professor at Boston College Law School, notes that the state of Delaware, though it has only one-third of one percent of the nation's population, is the state of incorporation of over fifty percent of U. S. public companies. Greenfield writes that Delaware's staggering dominance in the field of corporate governance has been the subject of heated debate in academic circles for years -- whether it is a "'race to the bottom',

a legal regime that benefits managers at the expense of the shareholders, or a 'race to the top' -- toward an efficient, shareholder-centric governance". He believes that this argument is beside the point, and that Delaware's influence in the field of corporate governance is illegitimate -- it depends on the so-called "internal affairs" doctrine, which states that the rules governing the internal affairs of a corporation originate from the state in which the corporation is chartered. However, because corporations affect so many stakeholders outside of Delaware, it is impossible to claim that internal affairs apply only to shareholders and managers. Greenfield argues that this ability of corporations to choose their governance law is undemocratic and inefficient, and believes that there may be grounds for federalization of incorporation laws. [TEM;GWB]

### **AA05155 THE MILLENNIUM CHALLENGE CORPORATION: MAKING IT WORK**

**Chassy, Aaron M.**

**Foreign Service Journal April 2005, pp. 37-45**

Summary: Chassy, a former USAID Foreign Service officer, asks whether or not the Millennium Challenge Corporation (MCC), as currently designed and operated, can produce significantly better development outcomes than USAID, the government's traditional aid program. The MCC could help sharpen the focus of U.S. development policy and programs, or at least serve as an assistance delivery mechanism that places a premium on results while insisting on accountability, he says. But, he notes, the MCC will have to overcome some major challenges in order to succeed. Some of the challenges Chassy identifies include: escaping the same kind of bureaucratic regulations that have encumbered USAID; determining how to objectively measure performance and ensure valid accountability and reporting; improving the metrics used to measure qualifying indicators, which currently suffer from untested methods and subjectivity; and over-reliance on the unfounded assumption that politics can be removed from foreign assistance decision process. [ES;LCJ]

### **AA05143 WILL CAFTA HELP CENTRAL AMERICA'S POOR?**

**Stokes, Bruce**

**National Journal Vol. 37, No. 18, April 30, 2005, pp. 1326-1329**

Summary: Stokes says the trade liberalization that the Central America Free Trade Agreement (CAFTA) will create both winners and losers. President Bush's faith in trade is based on economists' long-standing belief that the poor in developing countries are the most likely to gain from trade liberalization, he writes. But the world is more complicated than a simple measurement of countries' comparative advantages, he says. For example, Mexico's anticipated gains from liberalized trade with the U.S. under NAFTA were undermined in some areas by competition from cheaper labor in China, explains Stokes. Trade liberalization under CAFTA certainly should produce winners, but more attention should be paid to the need for safety nets, training and job placement for those dislocated by trade liberalization in Central America. [ES;LCJ]

### **AA05142 HOW REALISTIC ARE OPEC'S PROVEN OIL RESERVES?**

**Salameh, Mamdouh**

**Petroleum Review August 2004, pp. 26-29**

Summary: Dr. Salameh, an oil economist and World Bank consultant, notes that many energy experts have expressed doubts about the true extent of the petroleum reserves of OPEC member countries, which are stated to be 800 billion barrels, a figure that has remained largely unchanged, despite years of sustained oil extraction. In the late 1980s, the majority of OPEC producers abruptly increased their "official" proven reserve figures by

substantial amounts, although few new discoveries had been made to justify the increase. The author and others suspect that this was in response to OPEC's adoption of a quota system that allowed its members to produce oil based on their respective reserves. Salameh believes that OPEC's actual reserves may be overstated by as much as 300 billion barrels, the equivalent of taking a major producer such as Saudi Arabia out of the picture. Additionally, major oil reservoirs such as Saudi Arabia's Ghawar field may be nearing the end of their useful life; Ghawar, discovered in the 1940s, has been producing 5 million barrels a day for decades, and the Saudis now have to inject 7 million barrels of seawater a day into it to maintain reservoir pressure in order to extract the remaining oil. [TEM;GWB]

#### **AA05141 AIDS CRISIS AND GROWTH**

**Corrigan, Paul; Glomm, Gerhard; Mendez, Fabio**

**Journal of Development Economics Vol. 77, No. 1, June 2005, pp. 107-124**

Summary: The authors examine the economic growth effects of an AIDS epidemic in a community in sub-Saharan Africa. Economic growth factors impacted by AIDS are many, but the authors focus on two: the effect of decreased life expectancy on investment in physical and human capital, and the changes wrought by a large generation of orphans. They use models to evaluate the economic behavior of an AIDS community and make suggestions for further study. The authors note that understanding the economic behavior of communities impacted by AIDS is essential to providing the best possible policies to mitigate the economic devastation.

#### **AA05140 OIL IN TROUBLED WATERS**

**Economist Vol. 375, No. 8424, April 30, 2005, special insert**

Summary: This survey of oil issues discusses some of the challenges facing the oil industry. The authors make a number of observations on changes in supply and demand and OPEC strategies that complicate oil price predictions. Big oil companies may lose out to national oil companies as the private-sector oil reserves continue to diminish. Competition, technology and innovation will continue to outpace the depletion of oil reserves. Many oil industry executives have stopped seeing hydrocarbons as the sole significant fuel source for the 21st century, indicating that we may be further along in developing alternatives to oil energy than many predict.

#### **AA05126 AGRICULTURAL BIOTECHNOLOGY: OVERREGULATED AND UNDERAPPRECIATED**

**Miller, Henry; Conko, Gregory**

**Issues in Science & Technology Vol. 21, No. 2, Winter 2005, pp. 76-80**

Summary: Miller and Conko say overregulation of agricultural biotechnology (agbiotech) imposes a huge punitive tax on a superior technology, making it too expensive to develop. This excess scrutiny has happened despite the fact that a broad scientific consensus holds that agbiotech is merely an extension, or refinement, of less precise and less predictable technologies that have been used for similar purposes, and the products of which are generally exempt from case-by-case review, they explain. Some corporations have actually risked their own long-term best interest by lobbying for excessive regulation in order to gain short term market advantages, they note, which reinforces the notion that there is something uniquely risky about agricultural biotechnology. The authors provide suggestions for changing the excessive regulatory environment of agricultural biotechnology in a way that will rationally preserve public safety and encourage new discoveries. [ES;LCJ]

**AA05125 TRADING PLACES****Drucker, Peter F.****National Interest Vol. 79, Spring 2005, pp. 101-107**

Summary: Drucker says that the U.S. economy is no longer the single dominant economy on the world stage, although it is likely to remain the richest and most productive economy for a long time. The emerging world economy is a pluralistic one, with a substantial number of economic "blocs", of which the U.S.-dominated North American Free Trade Agreement is an important player. Further, he explains, what is emerging is not one but four world economies: a world of information; of money; of multinationals (no longer dominated by U.S. enterprises); and a mercantilist world of goods, services and trade. These world economies overlap and interact with one another, he writes, but each is distinct with different members, a different scope, different values and different institutions. [ES;LCJ]

**AA05124 THE CASE FOR FLAT TAXES?****Economist Vol. 375, No. 8422, April 16, 2005, pp. 59-61**

Summary: While the United States talks about flat taxes, some countries are already doing it. In 1994, Estonia became the first European country to introduce a flat tax, followed by Latvia, Lithuania and others. Russia overhauled its tax system in 2001, collapsing three tax brackets into one uniform 13 percent rate. After one year, the article notes, Russia's revenues showed an increase of 26 percent, partly due to increased income, but significantly attributable to a conspicuous increase in compliance with tax authorities. In the year before Russia moved to the flat tax, Russians in the highest two tax brackets reported only 52 percent of their income -- after the flat tax, this same group reported 68 percent of their income. This suggests that the principal virtue of the flat tax may be that its simplicity encourages compliance. [ES;LCJ]

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