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Implications Of Trump Budget Blueprint For US Stature Abroad

Law360, New York (March 19, 2017, 11:35 PM EDT) --

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On March 16, the Office of Management and Budget released the Trump administration's fiscal year 2018 budget outline, "America First: A Budget Blueprint to Make America Great Again," the first formal articulation of its spending priorities. In an accompanying message to Congress, the president emphasized the importance of prioritizing American security and safety, noting significant increases for defense and homeland security offset by "greater savings and efficiencies across the Federal Government."

In addition to steep cuts to foreign aid and other forms of "soft power," the budget blueprint proposes dramatic shifts to trade and investment priorities that — if enacted by Congress — could impact U.S. stature abroad and change the landscape for American businesses operating around the world.

Budget Blueprint: Trade and Investment Priorities

Throughout the 2016 campaign, President Trump criticized existing trade policies and pledged to toughen the United States' trade enforcement efforts. Following through on this promise, the president's budget provides additional funding for the International Trade Administration's (ITA) enforcement and compliance programs. The blueprint further states that the administration plans to rely on the U.S. Department of Labor's Bureau of International Labor Affairs (ILAB) to ensure "US trade agreements are fair for American workers." The statement suggests the administration will seek to strengthen the Office of Trade and Labor Affairs over ILAB's remaining divisions, which focus on a number of international labor priorities. While the budget blueprint does not mention the Office of the US Trade Representative (USTR) — which operates under the Executive Office of the President — budget proposals from past administrations have also omitted the agency.

Some commentators speculated that President Trump's planned cuts to foreign aid could be a boon for multilateral development banks (MDBs), like the World Bank, and export credit-type agencies, like the Export-Import Bank (EXIM) and the Overseas Private Investment Corporation (OPIC), that work with the private sector to de-risk investments in difficult markets. They argued President Trump would likely reduce public funding while encouraging private-sector-driven investments to fill the gap.

Instead, the president's budget reduces funding to MDBs by $650 million over three years. The budget also eliminates funding to OPIC and the US Trade and Development Agency (TDA), whose mandate is to "promote United States private sector participation in development projects in developing and middle-income countries, with special emphasis on economic sectors with significant United States export potential."

EXIM was spared the fate of OPIC and TDA; while not listed in the topline blueprint, OMB Director Mick Mulvaney has confirmed the export credit agency will be fully funded. President Trump was reportedly persuaded to spare the agency while the administration considers proposed improvements and reforms. Notably, EXIM's presidentially appointed board of directors remains without a quorum, meaning it cannot authorize transactions over $10 million. The Trump administration has given no signal whether or when it will nominate additional board members.

"The President Proposes, Congress Disposes"

Ultimately, the president's budget proposals are just that: proposals. Congress, not the president, holds the so-called "power of the purse" and is ultimately responsible for determining the fate of these programs. The appropriations clause of the U.S. Constitution provides that "[no] Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law ..." Lawmakers were quick to comment on the blueprint's potential impact on the U.S. government's international priorities. Sen. Lindsey Graham, R-S.C., chairman of the Senate Appropriations panel responsible for funding the State Department and other foreign operations, described proposed cuts to the department's budget "dead on arrival." However, while not embracing the blueprint completely, some lawmakers — especially Republicans — may support the administration's push for streamlined operations and "America First" priorities.

Guns vs. Butter

By proposing to increase ITA's enforcement budget and eliminate a number of export promotion agencies, the blueprint puts President Trump's campaign promises — to go after those who violate trade laws and target redundancies within the U.S. government — into action. It also comes as the Department of Commerce is soliciting public comments on the use of U.S.-produced materials in future pipeline projects under "Buy America" policies, which could significantly impact U.S.-based factories of international steel suppliers. Furthermore, the blueprint adds intrigue to the priorities set out in the president's 2017 National Trade Policy Agenda released earlier this year. That agenda pledges to "defend U.S. national sovereignty over trade policy," including through scrutiny of the World Trade Organization's dispute settlement procedures, and suggests the administration will continue to ensure existing and future trade agreements favor American jobs and businesses.

That said, the elimination of OPIC and TDA could severely undercut U.S. export promotion activities just as the Trump administration is pledging to help U.S. businesses export more American-made products. In an interview earlier this month, Peter Navarro, head of the newly created White House National Trade Council, pledged to work with U.S. trading partners "on a product-by-product and sector-by-sector level to reduce [trade deficits] over a specified period of time." He argues such reductions can be achieved if U.S. trading partners "buy more of our products than they now are buying from the rest of the world, whether it's chemicals or corn or whether, from a national security perspective, it's submarines or aircraft." This apparent shift of responsibility for export promotion from independent agencies to political appointees will carry a cost in the loss of valuable institutional knowledge and international relationships.

“You’re Fired”

Since his inauguration, President Trump has taken a number of steps designed to reduce what the administration views as redundancies in federal programs and government inefficiencies. Indeed, the president’s recent executive order titled “Comprehensive Plan for Reorganizing the Executive Branch” requires each executive agency to develop a proposed plan to improve “efficiency, effectiveness and accountability.”

The president’s proposal to eliminate TDA and OPIC is consistent with the administration’s focus on shrinking the federal government. While elimination of the agencies may help to reduce the size of the federal government, U.S. businesses who rely on these agencies to help them expand abroad will likely argue the agencies create American jobs and have significant long-term benefits for the U.S. economy.

For example, for 39 straight years, OPIC has returned money to the U.S. Treasury, operating at no net cost to U.S. taxpayers. However, critics have suggested the agency, like its sister agency EXIM, is expendable because it operates in the same space as the private sector and takes on projects with too much risk for the taxpayer. As Congress considers whether to fund these agencies and at what levels, members of Congress may seek a “middle ground” between the president’s budget proposal and pressure from U.S. companies to sustain the programs, potentially by combining certain EXIM, TDA and OPIC functions under one umbrella organization or transferring some TDA and OPIC functions to the White House or Commerce Department.

Impact on U.S. Stature

Reduced contributions to MDBs will impact America’s stature at these organizations, even if it remains the top donor. Voting power at institutions like the World Bank and the International Monetary Fund is determined by a country’s cumulative financial contributions; a reduction in funding would therefore reduce the voting power of a contributing country. However, for the World Bank, this reduction in voting power for the U.S. will not have a great impact because: (1) the U.S. will continue to be the top donor to the institution, and (2) it already has a tremendous voting advantage over other countries. For example, at the World Bank’s International Bank for Reconstruction and Development, the United States controls 16.4 percent of the vote, while the next closest country, Japan, controls just 7.1 percent.

While a step back in funding by the U.S. is unlikely to affect approved projects, it could affect future investments in the developing world. There is no shortage of private-sector interest in investing in bankable projects, but many large, transformational projects in Africa, Latin America and elsewhere in the developing world are not bankable without a government or quasi-government body offsetting some of the risk. A U.S. retreat in development financing will provide more space for China — already a force in the developing world — to strengthen its influence abroad.

This raises a broader, more troubling concern: the impact on U.S. stature around the world. The president is famous for his gift for branding, but his proposed budget could greatly weaken America’s brand abroad. Eliminating redundancies and creating greater efficiencies throughout the U.S. bureaucracy is a laudable objective. While such comprehensive reform is inevitably disruptive, it must also be balanced and not lose sight of the vacuum that will be created by U.S. disengagement. Drastic cuts to the State Department's budget targeting U.S. contributions across the globe — affecting key relationships and long-standing U.S. commitments to arms control, humanitarian relief, economic development, and peacekeeping, not to mention cultural and educational exchange — demand careful debate.

If You're Not at the Table, You're on the Menu

OMB is expected to unveil a more detailed budget in May that will outline further program reductions and eliminations. Congress will shift its attention to FY 2018 appropriations around that time, once lawmakers have finalized funding the government for the remainder of FY 2017 before current spending authority expires on April 28. U.S. businesses that work closely with OPIC, TDA or any other agency at risk of closure must advocate before congressional appropriators to ensure that relevant programs are not left on the cutting room floor. They should also engage directly with Trump administration officials to help influence any recalibration of U.S. trade policy.

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