

PRESIDENT OBAMA'S SECOND TERM: DOMESTIC AND FOREIGN CHALLENGES

BAŞKAN OBAMA'NIN İKİNCİ DÖNEMİ: İÇ VE DIŞ SORUNLAR

الولاية الثانية للرئيس اوباما: المشاكل الداخلية والخارجية

CENTER FOR MIDDLE EASTERN STRATEGIC STUDIES
ORTADOĞU STRATEJİK ARAŞTIRMALAR MERKEZİ

مركز الشرق الأوسط للدراسات الاستراتيجية



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CENTER FOR MIDDLE EASTERN STRATEGIC STUDIES

History

In Turkey, the shortage of research on the Middle East grew more conspicuous than ever during the early 90's. Center for Middle Eastern Strategic Studies (ORSAM) was established in January 1, 2009 in order to provide relevant information to the general public and to the foreign policy community. The institute underwent an intensive structuring process, beginning to concentrate exclusively on Middle affairs.

Outlook on the Middle Eastern World

It is certain that the Middle East harbors a variety of interconnected problems. However, neither the Middle East nor its people ought to be stigmatized by images with negative connotations. Given the strength of their populations, Middle Eastern states possess the potential to activate their inner dynamics in order to begin peaceful mobilizations for development. Respect for people's willingness to live together, respect for the sovereign right of states and respect for basic human rights and individual freedoms are the prerequisites for assuring peace and tranquility, both domestically and internationally. In this context, Turkey must continue to make constructive contributions to the establishment of regional stability and prosperity in its vicinity.

ORSAM's Think-Tank Research

ORSAM, provides the general public and decision-making organizations with enlightening information about international politics in order to promote a healthier understanding of international policy issues and to help them to adopt appropriate positions. In order to present effective solutions, ORSAM supports high quality research by intellectuals and researchers that are competent in a variety of disciplines. ORSAM's strong publishing capacity transmits meticulous analyses of regional developments and trends to the interested parties. With its web site, its books, reports, and periodicals, ORSAM supports the development of Middle Eastern literature on a national and international scale. ORSAM supports the development of Middle Eastern literature on a national and international scale. ORSAM facilitates the sharing of knowledge and ideas with the Turkish and international communities by inviting statesmen, bureaucrats, academics, strategists, businessmen, journalists, and NGO representatives to Turkey.

Dr. Süreyya Yiğit

Süreyya Yiğit studied for his undergraduate degree at the Department of International Relations, London School of Economics. His postgraduate degree is from Cambridge University and he holds an Honorary Doctorate in Pedagogical Science. He has lectured at the following universities; Aalborg University, Samarkand State University, Samarkand State Institute of Foreign Languages, Kyrgyz-Turkish Manas University, Kyrgyz-Russian Slavonic University, American University of Central Asia and the International Atatürk Alatau University. He has many publications relating to the fields of the European Union, Turkish Foreign Policy, British Politics and Central Asia. He is currently the Eurasian Advisor to ORSAM as well as a part-time lecturer at Istanbul Aydın University.

PRESENTATION

Elections always signify a development. Whether it is more of the same, or a change in policy and emphasis. Some elections are predictable and quite boring, whereas others are intriguing and full of twists and turns. All democratic elections are important and none more so than American presidential elections.

The reason why so much attention is paid to these particular elections stems from the fact that American power is extremely influential in international relations. Militarily, U.S. forces have been unparalleled in the post-cold war era. In terms of the economy, America still remains the most important national economy in the world. In the realm of culture, most of the world continues to watch American-made films and music. As for education, the respect that American universities possess is envied by the rest of the world.

Given such characteristics it is understandable to note that the U.S. presidential election has become a universal event, stretching beyond the North American coastline of the Atlantic and Pacific Oceans. Interested international observers look to see whether there will be any changes in key policy areas, such as in Syria, over Afghanistan, or concerning climate change. They are also keen to gain insights into the domestic economy, as in the increasingly interdependent and globalised world, even minor shifts in Washington can have major ripple effects, continents away.

Dr. Süreyya Yiğit has undertaken to identify what are the domestic and international challenges that face the new American administration. In this balanced and comprehensive study much light is shed on the American economy as well as the probable course American foreign policy is likely to take over the next four years. In this report, Dr. Yiğit dwelling on his American expertise has focused on political themes, economic issues as well as selected bilateral relations to forecast the obstacles that await President Obama.

Dr. Yiğit's report once more highlights ORSAM's continued focus on important international developments and its commitment to first-class research. We consider the topics and issues raised and addressed in this report to be highly significant for an international audience and believe that our readers will find it of direct relevance to them.

Hasan Kanbolat
ORSAM Director

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By: Dr. Süreyya Yiğit

PRESIDENT OBAMA'S SECOND TERM: DOMESTIC AND FOREIGN CHALLENGES

Executive Summary

Every year is an election year for a particular country. For some it is a legislative election, for others it is to determine the head of state. At times the election coverage spills over from the national onto the regional stage. Once in a while there is an election which receives global coverage. The best examples of this are U.S. presidential elections. The reason for such interest is related to the repercussions and policy implications that decisions taken in Washington have in diverse locations that stretch from Afghanistan to Zimbabwe.

The current presidential election returned Barack Obama to power to face quite difficult challenges. There are tough choices to be made and harsh lessons to be learnt from prior experiences. The difficulties the American president faces stems from the domestic political system. The checks and balances established by the founding fathers of the republic essentially foresaw a consensus emerging from good-natured opposing political forces. The past four years testifies to the fact that politics in Washington has become much more adversarial than consensual. The next four years look likely to ratchet up even more the tense relationship between the legislature and the executive.

The problems the United States faces can be simplistically summarised in two parts: domestic and foreign. Depending on one's outlook, either can be classified as being the more important. The higher earning American is fearful of sharing his or her wealth and the struggling American worker who finds it hard to make ends meet is concerned about cuts in social spending. For them it is the economy that is paramount.

For the armed forces and the diplomats, it is the world beyond Washington that needs to be addressed in a hurry. A potentially nuclear armed Iran is a nightmare for most and the dreadful sight of more American soldiers returning home draped in the stars and stripes is indigestible. For many in the academic community it is not the old adversary, Russia that poses the greatest worry; but the rising new regional hegemon and potential global challenger: China.

This report introduces the difficulties President Obama will face in his second term in both the national and international spheres. If domestic political consensus can be reached whereby every American contributes fairly to maintain a just and fair society, then the economic fears will fade into the horizon. If firm principles are adhered to and steadfastly implemented in foreign policy, then on the whole, a stable world will be on the cards. Should these two hypotheses remain just that –hypotheses– then the world at large, including the United States, is in for a turbulent ride.

A- INTRODUCTION

On November 6th, the American electorate voted to keep Barack Obama as their President. As in most national elections, the incumbents are usually the favourites. The reason being, it is they who have the possibility of benefiting from what is euphemistically termed “administrative resources.”

In the modern age of communications, the incumbent also has the potential to put his/her own spin on his/her terms in office. In this respect, policy setbacks can be portrayed as successes and lackluster performances on the national and international stage can be identified and interpreted as courageous statesmanlike ventures.

In this election, although, Republican candidate Mitt Romney did lose, the voters sent a warning to President Obama that he desperately needs to focus his attention on the domestic economy. It is usual for domestic issues to prevail in national elections as voters tend to focus on their personal well-being and the expected short-term economic gains that are offered by the candidates.

Just the opposite, it is rare that international matters capture the attention of the US electorate. This is usually the case when a country is embroiled in conflict or crisis. Even as every US mainstream mass media outlet reported another death of a US soldier in Afghanistan the day before the election¹, it appears this ongoing conflict did not play a significant role in determining the voter’s preference². What President Obama needs to focus on, however, in his second term is not solely domestic matters - headlined by the economy - but also international affairs.

B- DOMESTIC

i) Economy

Just as “it’s the economy stupid!” was Bill Clinton’s winning catchphrase in the 1992 presidential election, it was again - the economy -that was at the heart of the campaign for much of this year. Therefore, in this respect, it would be correct to assert that the challenges facing the re-elected President Obama in the domestic sphere are considerable. At least that is what nearly half the electorate thought as they endorsed a candidate who summarized the desperate state of the American economy in the following snapshots³:

- The unemployment rate has remained above 8 percent for 30 consecutive months, which is the longest spell since the Great Depression. Unemployment remains above 9 percent, with close to 14 million Americans without a job. Another 8.4 million are considered “underemployed,” holding one or more part-time jobs because they are unable to find full-time work. An additional 2.8 million are regarded by Washington as “marginally attached to the labor force” Almost 46 million Americans—that’s 34 percent more than two years ago—are living on food stamps, the highest number since that program was created, with millions of homes lost to foreclosure.
- Standard & Poor’s unprecedented downgrade of the U.S. sovereign credit rating has set off worldwide alarms about the credit worthiness of the nation.
- Over the past half century GDP growth has averaged 3.3 percent, though throughout the 2002-07 period, before the crisis’s eye of the storm hit the financial

system and the economy, that growth averaged 2.6 percent. Currently many economists argue that the country is in a growth downdraft, where an aging population will limit growth. Some economists even speak of a “new normal” of growth of at most 2 percent per year for an extended period of time. At that rate, joblessness will remain high.

- Overall the policy recommendations advocated by Romney paid special attention to long-term growth, rather than stimulus. Secondly, uncertainty concerning the budget in terms of both public spending, and higher taxes, constrains present household and business spending, and thirdly, that it is these that are the key to shared prosperity.

Romney was able to garner the electoral support of almost 60 million voters when he promised to⁴:

- Make permanent, across-the-board 20 percent cut in marginal rates
- Maintain current tax rates on interest, dividends, and capital gains
- Eliminate taxes for taxpayers with AGI below \$200,000 on interest, dividends, and capital gains
- Eliminate the Death Tax
- Repeal the Alternative Minimum Tax (AMT)
- Cut the corporate rate to 25 percent
- Strengthen and make permanent the R&D tax credit
- Switch to a territorial tax system
- Repeal the corporate Alternative Minimum Tax (AMT)
- Repeal Dodd-Frank and replace with streamlined, modern regulatory framework
- Amend Sarbanes-Oxley to relieve mid-size companies from onerous requirements
- Initiate review and elimination of all Obama-era regulations that unduly burden the economy

- Ensure that environmental laws properly account for cost in regulatory process
- Provide multi-year lead times before companies must come into compliance with onerous new environmental regulations
- Impose a regulatory cap of zero dollars on all federal agencies
- Require congressional approval of all new ‘major’ regulations
- Reform legal liability system to prevent spurious litigation

Bearing all these in mind, one could be forgiven to be pessimistic concerning the future of the American economy. According to the Brookings Institution, “The second term Obama administration is taking office facing challenging economic conditions. The economy continues to expand, yet the pace is disappointingly slow. The unemployment rate has fallen below 8 percent for the first time in almost 4 years, but is still unacceptably high. The economic expansion remains fragile and vulnerable to risks associated with financial strains in Europe and a confluence of expiring policies known as the fiscal cliff. And U.S. government debt is now at its highest level since the World War II period”⁵. The day after the election, the Brookings Institute highlighted “Ten Economic Issues for Obama’s Second Term”⁶, which were the following:

- *Jobs* - Unemployment Rate, October 2012: 7.9% United States is in the midst of the longest uninterrupted period of high joblessness since the great depression. Unemployment takes a serious toll on the lives and spirits of our vast number of Americans, putting issue at the top of the political agenda.
- *Healthcare* - Number of uninsured Americans, 2011: 48.6 million Our health care system may be one of the most important domestic policy challenges facing the na-

tion. We must develop practical policy solutions that promote broad access to high-quality, affordable, and innovative care.

- *Opportunity* - Poverty rate, 2011: 15% Amid stagnant wages and rising income inequality, the issue of opportunity in the United States has captured national attention in recent years. Finding effective ways to address our lagging education system and other problems must be a policy priority.
- *Business* - GDP change, third quarter 2012: +2% Businesses need well-designed and properly implemented regulations as well as an effective tax system in order to grow and hire. Smart policy reforms can enhance market performance and enable businesses, their customers, and employees to prosper.
- *Consumer Finance* - Personal Saving Rate, September 2012: 3.3% Household financial conditions have been battered by job loss and the plunges in home and stock prices in recent years. Over the longer run, consumers need to raise their saving and reduce their debt burdens in order to achieve financial security.
- *Monetary Policy* - Target Federal Funds Rate 0-0.25% The Federal Reserve has provided unprecedented support during the recession and the weak economic recovery that followed. What more can the Federal reserve do dispel fast economic growth are keeping inflationary check?
- *Financial Markets* - Dow Jones Industrial Average, November 6, 2012: 13, 246 The financial crisis revealed significant deficiencies in the global financial system. US financial reform must prevent a recurrence of excessive risk taking while not constricting

access to credit. Reform is also needed abroad, as the European crisis threatens the spillover into our own market and derail the domestic economic recovery.

- *Debt and Deficit* - Publicly held debt to GDP ratio, third-quarter 2012: 71.4% The fiscal cliff may derail the country's fragile recovery while the absence of a long-term budget deal hampers the country's growth prospects and threatens the solvency of long-standing government programs.
- *Housing* - Number of homes in foreclosure, September 2012: 1.4 million The housing market, while showing recent signs of life, still has a long way to go before it is fully recovered. Although mortgage rates are historically low, tight credit is making a sustained recovery more difficult.
- *Energy & Environmental Policy* - change in energy-related CO2 emissions, 2011: -2.4%. The goal for climate policy is to further de-couple economic activity and greenhouse gas emissions, at minimal cost.

Despite the pessimistic atmosphere highlighted by the Brookings Institution, however, recent economic figures offer a differing, slightly optimistic interpretation. When investigating American GDP, the American economy grew by 1.3% in the second quarter of this year which improved by another half, to 2% for the third quarter of 2012⁷. In terms of voters personal incomes whereas this had increased by only 0.1% in August, the very next month it had quadrupled to 0.4% for September⁸.

When investigating recent government statistics in more detail, one notices that the largest component of personal income - increasing by 0.3% in September - was wages and salaries, a point not forgotten by the voters⁹. Additionally government social benefits to Ameri-

cans also increased in September. In terms of real disposable personal income, when adjusted for taxes and inflation, this remained flat for September after having decreased by 0.3% in August¹⁰. Real consumer spending also increased by 0.4% in September after posting a previous increase of 0.1% in August; all positive indicators for President Obama¹¹.

The engines of growth for the US economy last year were identified as durable goods manufacturing, professional, scientific and technical services as well as information services¹². These were the leading sectoral locomotives for the expanding American economy. The manufacturing sector which had experienced double-digit growth in 2010 (11.2%) rose by another 4.3%¹³. It was the durable goods manufacturing which once again led growth in 2011, having increased by 7.9%¹⁴. Needless to say, in terms of the election this was a very worthwhile economic development for President Obama as it probably led to manufacturing workers voting Democrat.

As for the US current-account deficit, this stood at \$133.6 billion for the first quarter of 2012¹⁵. In the second-quarter it had decreased to \$117.4 billion, therefore, as a percentage of GDP the deficit had decreased to 3% from 3.5%¹⁶. Whereas the deficit on international trade in goods stood at \$194.3 billion, this decreased to \$185.8 as goods exports increased and goods import decreased¹⁷. The good news with regard to the deficit decreasing meant that the export sector was doing relatively well, once again benefiting the president in terms of garnering votes from workers related to this particular economic sector.

In terms of international trade and services, these were boosted from \$45.9 billion to \$46.5 billion as services receipts increased more than payments for services¹⁸. The surplus on income also increased from \$47.4 billion to

\$55.5 billion as income payments decreased and income receipts increased¹⁹. In terms of the activities of foreign residents, the next unilateral current transfer rose to \$33.6 billion on an increase of \$0.9 billion (\$32.7 billion)²⁰.

As for the trade gap, international trade deficit figures showed that increases took place in August 2012. The deficit for July 2012 was \$42.5 billion, which increased to \$44.2 billion for August as exports decreased more than imports²¹. As for the goods deficit this also increased from \$1.5 billion in July to \$59.3 billion in August as the services surplus decreased by \$300 million to \$15.1 billion²². These figures portray the American economy as suffering from the global economic malaise, but they also show the American economy as suffering less in the weeks and months leading up to election day.

American-made financial inflows were down from \$164.7 billion in the first quarter to \$88.5 billion in the second quarter²³. American-owned assets in foreign countries have decreased since the beginning of the year. These decreased by \$106.5 billion in the first quarter but gained momentum to increase by more than another hundred billion dollars reaching \$206.8 billion in the second quarter²⁴. In terms of foreign-owned assets they had increased by almost \$60 billion in the first quarter but the second-quarter witnessed a decrease by \$118.7 billion²⁵. The final set of figures demonstrated that foreigners were confident about the future of the American economy as they were willing to invest in the American economy; preferring the United States to other countries in terms of forsaking their savings.

Given these most recent economic indicators, there is ground for optimism when looking at the future of the economy. American growth is predicted to grow by 3% in 2013²⁶ and by

the time of the next presidential election a further 12 million jobs are expected to be created²⁷. Therefore, should President Obama be unable to deliver his promises in the second term – thereby repeating his experience of the first term – the voters in all likelihood will punish his party’s candidate in 2016.

ii) Fiscal Cliff

President Obama faces what has been referred to as a “fiscal cliff”. This refers to 31st December, when the Bush era tax cuts will end as well as spending cuts begin. It has been called a fiscal cliff as all Americans will face tax rises accompanied by fewer government contracts and reductions in social services.

This forthcoming crisis has been known for a long time. President Obama tried to deal with it in his first term when he came to an understanding with the Republican-held Congress in August 2011 to set up a bi-partisan committee to look into ways of capping public spending over the next decade as well as locating another \$1.2 trillion in savings over the same period.

The committee that was established could not agree, henceforth, the government faces \$607bn of cuts and tax rises which primarily include:

- reductions in the defense budget,
- ending the employee tax holiday,
- changes to Medicare allowances,
- higher personal taxes,
- Lower-paid losing certain child and income credits.

The financial community has expressed the seriousness of the impending crisis with the Fitch ratings agency referring to it as “the single biggest near-term threat to a global economic recovery.... The dramatic fiscal tightening implied by the fiscal cliff could tip

the US and possibly the global economy into recession. At the very least it would be likely to halve the rate of global growth in 2013.”

The IMF has predicted that the repercussions could mean a reduction of upto 4% in the growth rate, which would undermine the fragile confidence in the rest of the world. JP Morgan declared: “In all, the tax increases and spending cuts make up about 3.5% of GDP, with the Bush tax cuts making up about half of that”, envisaging approximately \$550bn or more to be withdrawn from the economy.

According to the Tax Policy Center, it is estimated that the average annual tax bill for Americans would rise by \$3,500. The extremely wealthy can look forward to an average tax rise of \$120,500 a year, while the lowest earners will also pay more than \$412 next year.

In terms of social welfare, it is the budget cuts that would cause more damage, whilst eliminating tax cuts for the wealthy higher income earners would have only a limited impact on economic growth. Despite the minimal impact on growth, President Obama has made it very clear that he is determined to enforce the higher income earners to shoulder their fair share of the burden²⁸.

As increasing taxes on the wealthy are anathema to most Republicans, there is a good chance that a lack of agreement will lead the U.S. into a recession in 2013. The only way to avoid this possibility is to agree on new legislation. The tax rises and spending cuts could be renegotiated or postponed. What this does mean, however, is for Congress and the President to see eye to eye, which seems to far from the situation on the ground.

In his first press conference since winning the election, President Obama declared that:

“Obviously, we can all imagine a scenario where we go off the fiscal cliff — if despite the election, if despite the dangers of going over the fiscal cliff and what that means for our economy, that there’s too much stubbornness in Congress”²⁹. He further reiterated that “What I’m not going to do is to extend further a tax cut for folks who don’t need it”³⁰ “We should not hold the middle class hostage while we debate tax cuts for the wealthy”³¹.

Some Republicans such as Glenn Hubbard³² - an economic adviser to Mitt Romney - has urged the Republican Party to accept the need for the rich to pay more tax, albeit through closing loopholes such as tax deductions. Other Republicans have declared that they are open to raising additional tax revenue by limiting tax breaks for the wealthy, but remain adamant in opposing tax rises on the wealthiest 2 percent of U.S. taxpayers.

Republican Representative Raul Labrador made this very clear when he vowed to “continue to fight any member of our conference that decides that this is a good time to raise taxes”. This stance received support from the U.S. Chamber of Commerce, when it released a letter, signed by more than 200 business groups, calling on the president to find budget savings by scaling back benefits rather than raising taxes.

Henceforth, it was imperative for the Democrats, led by President Obama, to come to an agreement with the Republicans who hold the majority in the House of Representatives to not only ensure that the economy grows at a quicker pace, but also to give themselves a fighting chance in the Senatorial elections in 2014 as well as the next presidential election.

After much discussion and deliberation, especially during New Year’s Eve, the U.S. Senate finally came to an agreement, voting 89-8 after midnight to resolve the fiscal cliff. The Senate deal focused on the following:³³

- Income tax: permanent extension of tax rates for individuals earning below \$400,000, and for couples filing jointly below \$450,000. Above that, income taxes to rise to 39.6%, up from the current 35%.
- Capital gains and dividends: permanent 15% tax rate for individuals earning below \$400,000 or households below \$450,000, and a 20% tax rate for those earning more than \$400,000 or \$450,000.
- Social Security payroll “holiday”: two percentage point cut in the payroll tax lapses, increasing the payroll tax to 6.2%.
- Personal exemptions and itemised tax deductions: Personal Exemption Phase-out (PEP) and Pease limitation to be permanently enacted on individuals earning more than \$250,000 or households earning more than \$300,000.
- Unemployment benefits: extends benefits for the long-term unemployed for one year, affecting two million people.
- Estate tax: permanent change to a 40% tax rate on estates valued above \$5m and family estates of \$10m, an increase from the current rate of 35%
- Alternative minimum tax: permanently fixes and indexes the AMT for inflation, to prevent middle and upper-middle income taxpayers from incurring higher tax bills.
- Tax credits: extends for five years the child tax credit, earned income tax credit, and an up to \$2,500 tax credit for college tuition. Extends for one year accelerated “bonus” depreciation of business investments in new property and equipment.
- Medicare payments: stops a 27% cut in Medicare payments to doctors for one year dating back to 1997.

The next day, January 1st, the House of Representatives received the Senate-backed bill and voted in favour of it by 257 votes to 167.

One can summarize the Fiscal Agreement as including:³⁴

- Raising \$600 billion over 10 years through higher taxes on wealthier Americans
- Delaying by two months \$24 billion in mandatory defense and domestic spending cuts
- Extending farm bill provisions to prevent a spike in milk prices
- Blocking cuts to payments for doctors who treat elderly Americans
- Extending unemployment benefits to 2 million people for one year
- Canceling a \$900 cost-of-living raise for members of Congress The agreement was hailed as a major success with President Obama telling the audience at a White House press conference that he was fulfilling a campaign pledge: “I will sign a law that raises taxes on the wealthiest 2% of Americans....while preventing a middle-class tax hike”.³⁵ The news was also heralded as a victory especially with the Asian markets responding positively, with Hong Kong’s Hang Seng index increasing by 2.1% on Wednesday morning, South Korea’s KOSPI rising by 1.7% and Australia’s ASX 200 reflecting a 1.2% increase.³⁶

There is no disagreement that it took a herculean effort to bring both the Democrats and the Republicans in the Senate and the House of Representatives together on New Year’s Eve and New Year’s Day to pass such a deal. What ought not to be forgotten, however, is that

the deal reached is a temporary one. Despite its noted achievement, the deal is not a final settlement as although it raises taxes for the wealthy it only delays spending cuts for two months. A longer term solution still needs to be hammered out between the President and the Republicans.

C- FOREIGN

In the international arena - in terms of foreign policy - this is an area which historically attracts greater attention for incumbents. Perhaps the reason may be that after having focused heavily on domestic issues in their first-term of office, incumbents feel more enabled to act more easily in the international arena. It may well be the case that the US President becomes less attracted to national affairs and more interested in foreign developments. Given the fact that much of foreign policy-making is attributed to summits, whereby heads of government and heads of states meet each other regularly, the attractiveness of summit diplomacy quite naturally attracts Prime Ministers and Presidents who have spent several years on the national and international stage. Frankly speaking it is relatively rare to see first-time officeholders pay greater attention to foreign affairs when compared to the domestic political agenda. This on the whole is reversed in the second and subsequent terms of political activities in future offices.

i) Defense & Security

In terms of defense, President Obama has already committed himself to a policy which will definitely have to punch above its weight. In other words, due to the Budget Control Act passed by Congress last year, the American defense strategy is obliged to cut at least \$487 billion from the Pentagon’s budget over the next decade³⁷. Therefore, the American Armed Forces will either be expected to fulfill

the same obligations as it has so far and continues to do so, but with less financial support, or reduce its tasks.

Equally, in terms of personalities heading the defense policies, it must not be forgotten that next June, Defense Secretary Leon Panetta will be 75 years old. He has indicated to the Obama administration that he is unwilling to complete another full term in office; therefore, a new Defense Secretary will have the tough challenge of enforcing major budgetary cuts at the Pentagon³⁸.

In addition to the budgetary reductions, it has already been estimated that 80,000 soldiers from the Army and 20,000 from the Marines will be forced to return to civilian life³⁹. Furthermore, given the high rate of casualties endured in Iraq and Afghanistan, the next few years also poses challenges to the President in terms of funding. More financial assistance will needed to be allocated in helping war veterans overcome their severe physical and psychological injuries as well as preparing them to return to civilian life after their military service.

In this vein it was notable that Ralph Nader, a perennial presidential contender, who identified President Obama in the election run up as a "war criminal" and that he had "gone beyond George W. Bush in drones." Nader proclaimed, "He [President Obama] thinks the world is his plate, that national sovereignties mean nothing, drones can go anywhere. They can kill anybody that he suspects and every Tuesday he makes the call on who lives and who dies, supposed suspects in places like Yemen and Pakistan and Afghanistan, and that is a war crime and he ought to be held to account."⁴⁰ The underlying reason for this bitter attack was the liberal expectations raised by the President, which was revealed in the statement by Nader that "I don't know whether

George W. Bush ever read the Constitution.... This man TAUGHT the Constitution, and this is what we got"⁴¹.

While President Obama was used to being attacked from the political right in his first four years as President, it was unusual for a well-known left wing candidate such as Nader to criticise him so vehemently. Nader's criticism is indicative of the fact that President Obama will feel hemmed in over the next four years from both the Republicans on the right as well as libertarians on the left. President Obama will face a continual battle from both sides of the political spectrum in trying to convince him to change his course and adopt "their" preferred ways. In overall defence and security policy, it is fairly clear to see that the next four years will be much more challenging than what the president faced in his first term of office.

ii) State Department

Furthermore, in this regard it is imperative that he finds a capable pair of hands to run the State Department after Hillary Clinton relinquishes that office. Initially a couple of names stood out as probable replacements. Should Secretary Clinton's successor be a woman then it had to be the UN Ambassador, Susan Rice - who would have been the second black American woman named Rice to hold that title after Condoleezza Rice.

Leading Republican Senators Lindsey Graham and John McCain strongly attacked Ambassador Rice for comments she had made in the aftermath of the Sept. 11 attack on the U.S. consulate in Benghazi. Rice had appeared on national television news programs stating that the attack was the result of a popular protest against a U.S.-made video, rather than a terrorist attack. Senators Graham and McCain alluded that Susan Rice was part of a political cover up heading into the election.

McCain went onto declare that “My judgment at this time is that four Americans were killed, and the information that our U.N. ambassador conveyed was clearly false....There was overwhelming evidence that it was completely false. And she should have known what the situation and circumstances were and not tell the world on all Sunday morning talk shows.”⁴²

The President in his first post-election press conference referred to Rice as having done exemplary work, whilst declining to comment on whether he’d nominate her to replace Clinton in his Cabinet he did go onto clarify that “She made an appearance at the request of the White House in which she gave her best understanding of the intelligence (on Benghazi) that had been provided to her. If Sen. McCain and Sen. Graham and others want to go after somebody, they should go after me – and I’m happy to have that discussion with them.... But for them to go after the U.N. ambassador, who had nothing to do with Benghazi and was simply making a presentation based on intelligence that she had received, and to besmirch her reputation, is outrageous.”⁴³

The President got his wish in minutes when Senator Graham issued the following harsh response: “Mr. President, don’t think for one minute I don’t hold you ultimately responsible for Benghazi. I think you failed as commander in chief before, during, and after the attack”.⁴⁴ The Republican Senator was highlighting once more the massive political terrain separating his party from the White House in terms of foreign policy.

The political backlash the UN Ambassador experienced and the ongoing inquiry into the Benghazi attack, the pressure became unbearable for Susan Rice which led to her voluntarily withdrawing in mid-December. Rice wrote to the president asking him to no

longer consider her for the job because it seemed inevitable that she would face a lengthy, disruptive and costly nomination battle with the Senate.

Rice stated that “The position of secretary of state should never be politicised....As someone who grew up in an era of comparative bipartisanship ... I am saddened that we have reached this point, even before you have decided whom to nominate. We cannot afford such an irresponsible distraction from the most pressing issues facing the American people....If nominated, I am now convinced that the confirmation process would be lengthy, disruptive and costly – to you and to our most pressing national and international priorities....That trade-off is simply not worth it to our country ... Therefore, I respectfully request that you no longer consider my candidacy at this time.”⁴⁵

The White House confirmed she would remain as the UN ambassador, whilst releasing a statement confirming that the president expressed regret describing the attacks as “unfair and misleading.... For two decades, Susan has proven to be an extraordinarily capable, patriotic, and passionate public servant ... I am grateful that Susan will continue to serve as our ambassador at the United Nations and a key member of my cabinet and national security team, carrying her work forward on all of these and other issues.”⁴⁶

The withdrawal of Ambassador Rice was a disappointment for President Obama, and has been seen as a sign of weakness by him in terms of fearing to a problematic nomination battle. This has meant that the other front-runner for this post has, therefore, become the firm favourite. That person is the very distinguished, long-serving ex-presidential candidate, Senator Kerry. Should he replace Clinton, this in all likelihood will mean that

continuity will be maintained in US foreign policy, though there were suggestions that he would be best suited for the post of Defence Secretary.

Concerning the withdrawal of Ambassador Rice, Senator Kerry defended her by issuing a statement: "As someone who has weathered my share of political attacks and understands on a personal level just how difficult politics can be, I've felt for her throughout these last difficult weeks, but I also know that she will continue to serve with great passion and distinction."⁴⁷

Given the fact that Ambassador Rice withdrew precisely due to her reservations concerning the Senate nomination process, it is highly likely that Kerry as head of the Senate foreign relations committee, which is responsible for screening the secretary of state, becomes almost guaranteed to succeed Hillary Clinton.

iii) CIA Director

As if President Obama did not have enough on his plate in thinking of who to immediately propose for the post of Secretary of State and at a later time frame, for the post of Defense Secretary, he was forced to concentrate on the intelligence community. According to news reports, in October an FBI employee tipped off the House Majority Leader Eric Cantor that the CIA Director David Petraeus was having an extramarital affair⁴⁸. Cantor then inquired about the potential national security implications involved to the FBI employee.

On November 6th as President Obama was re-elected, Petraeus told James Clapper, the Director of National Intelligence about his affair, after which, Clapper advised Petraeus to resign. Three days later on November 9th Petraeus did resign admitting to the affair⁴⁹.

The same day, the House and Senate intelligence committees were informed of the FBI investigation, which led to outrage from both the House and Senate members⁵⁰. To fan the flames further, the resignation came just days before Petraeus was scheduled to testify before the Senate Intelligence Committee about the Benghazi attack.

It does seem implausible that whilst the President had no prior knowledge of this affair, the House Majority Leader did. Such a revelation just weeks before Election Day would have caused an enormous furore over ultimate responsibility and the effectiveness of U.S. foreign policy. The fallout from such a revelation could well have tipped the scales in favour of Mitt Romney. Be that as it may – currently there is no evidence that the White House knew of this affair and turned a blind eye – President Obama does need to regain confidence through appointing a worthy successor to General Petraeus.

iv) Afghanistan

Pursuing this trail of thought, on the foreign policy horizon the pressing short-term challenge that Washington focuses on remains Afghanistan. One can identify four severe problems in Afghanistan. Firstly, the major corruption within the Karzai regime. The roots of corruption run deep whereby structural factors are reinforced by short-term and individual ones. As a starting point there is the necessity to pay off those who manipulated and secured the election of Karzai as President. Within the corrupt Afghan administration, there is the desire of many officials to make as much money as they can now as insurance against an uncertain future.

Secondly, efforts to train the Afghan security forces have been on the whole unsuccessful. Upgrading the Afghan army (current nominal

strength is 94,000) has been severely compromised by a lack of an officer corps. Furthermore, the situation has been exacerbated through desertions or resignations so that a quarter of the entire force has been lost in a single year. To make matters worse, many members of the police services are inefficient and corrupt, or have been infiltrated by the Taliban and other militias.

Thirdly, the situation in neighbouring Pakistan remains highly unstable. The Pakistani military will be forced into making deals (formal or informal) to create some breathing-space for themselves. Whilst there is willingness to respond to an internal threat, this does not lessen the desire of its elite to regain political influence in Afghanistan - to counter what it sees as the "power-base" being developed by its competitor India. The Pakistani elite believe that this can be done by aiding the Afghan Taliban and other paramilitaries.

Fourthly, President Obama has frequently been stuck between a rock and a hard place. His own party has opposed the war, while the opposing Republicans spoke of appeasement when withdrawal was mentioned. Opinions echoing the Vietnam-era argument that an "unleashed" military could have won the present battle were aired. All this led to a U.S. electorate losing faith in the Afghan project.

The United States had identified in March 2009 several core aims⁵¹:

- to disrupt, dismantle, and eventually defeat al Qaeda
- to prevent their return to either Afghanistan or Pakistan
- surge U.S. forces, targeting elements of the insurgency
- securing key population centers,
- training Afghan forces,
- transferring responsibility to a capable Afghan partner,
- increasing partnership with Pakistan.

In response to this malaise, President Obama gave a very important speech on December 1, 2009 where he outlined a new American strategy⁵². 30,000 additional US troops, backed by an expected 10,000 further troops from other NATO states would take foreign troop numbers to 140,000 which would be more than the Soviet Union had in their eight-year war in Afghanistan.

Emphasis was placed on securing cities, larger towns and local roads, thus less attention would be paid to rural areas. This has raised eyebrows somewhat as Afghanistan is one of the world's least urbanised countries. Alongside this, significant increases in civilian experts are to accompany a sizable infusion of additional civilian assistance with the primary reconstruction priority being to implement a civilian-military agriculture redevelopment strategy to restore Afghanistan's once vibrant agriculture sector. Support for the state-building idea is maintained through governance efforts focusing on the development of more responsive, visible, and accountable institutions.

A key element of President Obama's political strategy will be supporting Afghan-led efforts to reintegrate the remnants of the Taliban who renounce al Qaeda, lay down their arms, and engage in the political process. Such efforts are to be successful only through closer relations with Pakistan. Therefore, the U.S. is committed to a strategic relationship with Pakistan for the long term as well as being committed to strengthening Pakistan's capacity to sustain their fight against extremists and to eliminate terrorists' safe havens in their country. Finally the Obama administration is committed to providing \$1.5 billion each year between 2009-2013 to support Pakistan's development and democracy, which all in all highlights the importance of Pakistan in bringing stability and sound governance to Afghanistan⁵³.

Having said this, decreasing support for the war in the U.S. has been a distinct advantage to the Taliban. Their militants can choose in the future to retreat from confronting heavily armed, well equipped US soldiers, therefore, avoiding heavy casualties and playing a clever waiting-game. There is a downside to pursuing this tactic, such a response may give the impression that the movement has been defeated, which could lead to a loss of political support among Afghans whom it had won over.

Implementing this approach may encourage US and other NATO forces to stay as they would be suffering fewer casualties and be able to convince their electorates that the war is going well. However, the Taliban may well prefer to engage with the reinforced deployments, culminating in a mixed result whereby it would be killing more foreign soldiers while losing many of its own.

The U.S. is making an assumption that insurgents are “recipients” of external policy changes, that they are reactive but not themselves proactive. This in many ways is a dangerous assumption; it is better to assume militias have personnel and fellow-travellers who are as intelligent and professional in thinking and planning as their western counterparts.

Therefore, Afghanistan continues to face a complex, interrelated set of political, administrative, economic and social challenges. Corruption is endemic and ensures that despite the country being a centralized state, the central control is weak. This situation is worsened by an ongoing major drug trade and unsecured borders. The judiciary, a central plank in the principle of the separation of powers, lacks accountability and well-trained judges.

According to the 2009 Transparency International Corruption Perceptions Index, Afghanistan came 179th out of 180 countries⁵⁴. The only country more corrupt than Afghanistan in the world was Somalia. Apart from the judicial system, the police force, municipalities and customs department are identified as being some of the most corrupt institutions.

The problems that continue to plague Afghanistan are part and parcel of a post-conflict society that is unable to establish the rule of law. Views on nation-building stress that security is paramount, but it is clear to see that this still has not been achieved due to the existence of many warlords. Retired U.S. General Tommy Franks has identified the situation as “catastrophic success”⁵⁵. The military quickly won over the Taliban but left the country without a government before state-building and reconstruction options could be developed. It has been the Obama administration that has tried to find an adequate solution to this enigma.

Yet President Obama has publicly and internationally committed himself to returning all American military personnel from Afghanistan by 2014. What will happen after the withdrawal has intrigued many foreign-policy observers. Many have openly pondered that given the fact, for more than a dozen years NATO and Allied troops have remained on the ground in Afghanistan, they still have not been able to produce the desired stability.

What are the chances of stability when the troops leave Afghanistan? If such an end could not be fulfilled with so many soldiers on the ground, over such a long time, how is it possible that this will be realised with the withdrawal of such military hard power? Is it not right to question the strategy of soldiers securing streets rather than economic and social aid winning over the hearts and minds of would-be terrorists and antagonists?

In conclusion, it is the civilian dimension of the U.S. strategy that will ultimately decide the fate of Afghanistan. As said, it is not boots on the ground that will build democracy from the ground up. Certainly, the Afghan people have to pull themselves up from their bootlaces and can only be successful with international assistance. Nation-building, alongside state-building have become quite popular concepts and keywords within the international relations lexicon since Operation Enduring Freedom. A related and perhaps useful concept in this context is regime-building. After the surrender of Germany and Japan, American soldiers did occupy these two countries and were successful in creating two vibrant democracies. This was done in conjunction with a strong military presence coupled with judicial, social, economic, educational and political dimensions.

The civilian aspect and sector in Afghanistan will determine whether that country can become a stable actor on the world stage. The issue at stake is not so much the constitution, but the policy-makers. What made West Germany politically stable and economically viable was not only the Basic Law, but the presence of the likes of Adenauer and Erhard. The tough question to answer is whether Karzai can be a Yoshida in transforming his country or not?

The strategic readjustment as identified by President Obama provides no clear answer. Much has been accomplished in Afghanistan; nevertheless, one cannot compare it to 2001. More than forty countries have committed military forces to stabilizing the country. The goal of Afghanistan relying on her own resources to maintain her security is nearer, but still far. It is quite similar to the proverbial sand in one's hand, the more one squeezes, the more the sand oozes out and slides away.

v) Syria

According to the UN⁵⁶ and media sources⁵⁷, the past year and a half has witnessed the death of between 25,000-36,000 Syrians, more than a third of a million Syrians have fled to live as refugees in nearby countries as well as a million or more are considered to be internally displaced. The refugees have mainly settled in Turkey, Lebanon, Jordan and Iraq, though these four countries are straining to meet the demands incurred by such large scale forced migration. This issue was picked up by the UNHCR calling on the international community to provide more support for the generosity and hospitality shown by Syria's neighbours. Needless to say, this call has fallen on deaf ears.

The government of Bashar Al-Assad has consistently deployed air power to strike areas held by the rebels culminating in increasing daily casualties. At first, the rebels seemed to be making certain progress in the capital city and Aleppo throughout the summer, though they have lost significant ground since then. The Syrian government whilst inflicting major damage on the rebel-held areas has so far been incapable of taking control of the whole country.

The pressing issues relating to Syria are threefold. Firstly, the fear that the authoritarian regime of Al-Assad will succeed in transforming the conflict into a sectarian one, thereby effectively dividing the opposition. This tactic has fragmented the opposition somewhat, as Christians and Alawites have sought protection from Damascus rather than the opposition which also contains extremist groups who advocate a universal jihad. . The recent meeting of the Syrian opposition in Qatar has culminated in a hastily arranged United Syrian opposition⁵⁸. Whilst much has been made in the international press about the importance of

the disparate opposition groups uniting under one roof it remains to be seen how durable disunited opposition will be⁵⁹.

One impression that has been created is that these groups have been highly encouraged by external powers to come together to publicly demonstrate a united front. What is vital, however, is for there to be not only a common aim, i.e. that of removing the authoritarian Syrian leader, but a plan of action relating to political transition. In such situations, as has been witnessed in the Arab Spring, the initial aim of removing the unpopular leader is the easiest part of union. The difficult part is coming together to decide on the regime that will be constructed afterwards. It is in this area where groups find it very difficult to compromise and to maintain unity in opposition. This aspect will, in all likelihood, be at the forefront of President Obama's mind in the near future.

Secondly, there is great danger that the conflict could spread to Syria's neighbours. Turkish territory has been shelled several times and Turkish citizens have been killed as a result. Turkey has consistently called for the creation of safe havens, but has been unable to gather support for any military intervention. Lebanon is another country which is particularly vulnerable due to the fragility of the present peace between its different religious groups. In October, the Lebanese intelligence chief, a Sunni, was killed by a car bomb, which many commentators have interpreted as a deliberate attempt by Syria to destabilise Lebanon. Similar to the Turkish case, there have been exchanges of fire over the Lebanese border and fighting has broken out between Sunni and Shia Lebanese, supporting the rebellion and the Syrian Government respectively. Furthermore, western press reports have indicated that Iran has also been helping Iraqi Sunnis to fight alongside the Syrian government forces.

Thirdly, the UN Security Council has not come together to show a united front on the Syrian crisis. The call by the UN's Special Envoy, Lakdar Brahimi, for a temporary ceasefire to coincide with Eid al-Adha, the Islamic Feast of the Sacrifice at the end of October led to a slight initial lull, but hostilities quickly escalated with car bombs and ferocious air strikes.

To put the bloodshed into perspective the numbers of dead in Syria resemble that of Libya: at least 25,000, perhaps rising to 36,000 or more. The difference, however, is that the population of Syria is three times that of Libya and the timescale at least twice as long. Therefore, in comparison the Libyan civil war was of shorter duration but the proportionate numbers of casualties were significantly higher. Basically, more died in less time.

Related to this matter, commentators have observed a confusion prevailing in American foreign policy with regard to the Middle East and beyond⁶⁰. Washington was very eager to see the end of Colonel Gaddafi in Libya and actively encouraged its allies to pursue a path that would eliminate him from the Libyan leadership. On the contrary, President Obama has so far, been very hesitant in asking the international community to act together to overthrow his counterpart. So far one cannot see any repetition of the negotiation and attempts to build a coalition as was witnessed concerning Libya being replicated in Syria.

One factor that must be born in mind in this equation is the recent statement made by the Russian Prime Minister Dimitri Medvedev, who reminded his audience that "The situation in Syria causes our greatest concern," continuing to reiterate that "The Russian Federation is certain that it is up to the Syrian

people themselves, not international structures or any other forces, to determine this country's future"⁶¹.

Given the fact that Russian opposition to international intervention in domestic affairs remains, imaginative thinking in two respects is required from President Obama: Firstly, to try to find a way to involve Iran as a party offering their assistance to seek a solution to the crisis as Tehran remains the Assad regime's closest ally. Secondly, to transform the Syrian conflict from what is increasingly being perceived as a proxy battleground between the West and Russia, whereby a contained domestic power struggle is taking place with covert international support for both sides, to another domino along the path of the Arab Spring.

vi) Russia

At the time of the previous presidential election in 2008, US-Russia relations were at a low, characterized by a mutual frustration and an adversarial drift. President Obama taking office in January 2009 provided a much needed diplomatic opportunity for both sides to soften the tone of their bilateral relationship and cooperate in areas deemed to be of mutual interest.

President Obama and his counterpart Medvedev met in 2009 to negotiate the New START Treaty and reach additional agreements on nuclear security, cooperation on Afghanistan, military-to-military cooperation and the formation of the Bilateral Presidential Commission. Both countries have cooperated further afield to lead efforts to address the threat of nuclear terrorism and prevent terrorists from acquiring nuclear materials as well as striving to try to bring Iran's nuclear programs into compliance with International Atomic Energy Agency (IAEA) rules and relevant United Nations Security Council Resolutions.

Alongside this sizeable cooperation, however, there are areas where strong disagreement prevails. A good example of this concerns Moscow's recognition of the independence of South Ossetia and Abkhazia, which lead to the frosty relationship just before President Obama took office.

In terms of viewing Russia as an aggressor, in the final presidential debate on foreign policy, President Obama told viewers that Governor Romney had said that "...the biggest geopolitical threat facing America (is) Russia, not Al Qaida"⁶². The President portrayed his opponent as engaging in classic cold war campaign hyperbole by considering Russia as the greatest geopolitical threat to the United States. In reality, Russia is a paper tiger compared to the Soviet Union of the Khrushchev or even the Brezhnev eras. It is no longer one half of a global superpower, but more of a regional giant casting an impressive shadow over Eurasia. However, as evidenced in the Syrian example, Russia can and does frustrate concerted action on the world stage due to its UN Security Council veto power.

President Obama will have to meet the challenges of the Putin-Medvedev tandem in Russia. This is a situation that foreign-policy makers in Washington have become accustomed and attested to as a fact of life. Given the fact that President Putin will probably be in power for the next dozen years - should he contest and win the next presidential election, he would be in power until 2024 - that is another development that must be factored into medium-term American foreign policy-making. It remains to be seen whether President Obama will succeed in further integrating Russia, deeper into the international economic system, whilst at the same time improving bilateral political relations.

vii) Iran

Iran is a country with which the United States prohibits nearly all trade and investment with. Sanctions have been imposed by the U.S. on Iran due to its sponsorship of terrorism, its refusal to comply with international obligations on its nuclear program as well as its human rights violations. The fact that Iran still has not recognized the right of Israel to exist and continues to hinder the Middle East peace process by arming militants, including Hamas, Hizbollah, and Palestinian Islamic Jihad has meant that diplomatic relations between Washington and Tehran have remained tense.

November 2011 witnessed the publication of a report by the IAEA⁶³ that identified “credible evidence” of an Iranian nuclear weapons program, which led the Obama administration to redouble its efforts to further pressure the Iranian regime. A precedent was set shortly thereafter, when U.S. sanctions targeted the Iranian petrochemical and banking sectors⁶⁴.

2012 has been a year where the already strained relations have worsened with Iran sentencing a captive American citizen to death in January⁶⁵. The next month President Obama signed an executive order authorizing U.S. institutions to freeze all property and interests of the Iranian government, central bank, and financial institutions that came within U.S. jurisdiction, therefore, ratcheting up the pressure on Tehran⁶⁶. In the meantime Iran verified that it was enriching uranium which was identified as a major step forward in the ability to make weapons-grade uranium⁶⁷. Finally, Iranian President Mahmoud Ahmadinejad’s visits to Venezuela and Cuba were also noted with raised eyebrows in Washington⁶⁸.

At the UN General Assembly in September, President Obama stressed in his speech that the United States wanted to resolve Iran’s nuclear issue through diplomacy, but that the time for doing so was not unlimited⁶⁹. He reminded his audience that his goal remained to prevent Iran from obtaining nuclear weapons, not containing it after the fact⁷⁰. The next month during the third presidential debate, the president denied a report published in the *NEW YORK TIMES* that the United States would engage in bilateral talks with Iran about its nuclear program after the election⁷¹.

In fact, ten days before Election Day, the Virtual Embassy of the U.S. in Tehran confirmed that “As the White House stated over the weekend, it is not true that the United States and Iran have agreed to one-on-one talks or meetings now or after the elections. The United States continues to work with our P5+1 partners on a dual track approach to persuade Iran to come into compliance with its international obligations regarding its nuclear program and have said from the outset that we would be prepared to meet bilaterally. We believe that there is still time and space for a diplomatic resolution, though that window will not be open indefinitely. The onus is on the Iranian regime to come in line with its international obligations”⁷².

Mitt Romney wrote an article published in the *Wall Street Journal* on September 30th that “When we say an Iranian nuclear-weapons capability—and the regional instability that comes with it—is unacceptable, the ayatollahs must be made to believe us”⁷³. The very next month, in a major speech on foreign policy he went on to assert that “Iran is sending arms to Assad because they know his downfall would be a strategic defeat for them....We should be working no less vigorously with our international partners to support the many Syrians

who would deliver that defeat to Iran--rather than sitting on the sidelines"⁷⁴.

In the third presidential debate, however, whilst Romney repeated his contention that "a nuclear-capable Iran is unacceptable to America"⁷⁵, he was in broad agreement with the Obama administration's approach of imposing economic sanctions: "[T]hey do work. You're seeing it right now in the economy. It's absolutely the right thing to do, to have crippling sanctions. I would have put them in place earlier. But it's good that we have them"⁷⁶.

President Obama continues to pursue the strategy of waiting for economic sanctions to take effect on Iran - as a seemingly soon to be nuclear-armed power. Currently, they are having a certain impact as President Obama has drawn attention to the successes of the economic sanctions levied against Iran, noting that its currency has been devalued by 80 percent and oil exports are at their lowest level in twenty years⁷⁷. To pursue the theme of the currency the Iranian Rial is facing collapse, as in last month alone it lost a quarter of its value⁷⁸. Though in the final analysis, it is still unclear as to whether it is the sanctions that are having the negative effect, or Tehran's mismanagement of the domestic economy.

During his first term, the administration was able to exert some influence on Israel concerning air strikes against Iran's nuclear facilities, though with a general election to be held in two month's time a new more hawkish coalition could emerge looking even more favourably on the air strike option. On a personal level, there is not much love lost between the American President and the Israeli Prime Minister. Should Netanyahu continue to be the head of government, it will mean past tensions and lack of cooperation will significantly intensify and quite possibly a much stronger dialogue be required to delay any possible pre-emptive Israeli military action.

viii) North Korea

North Korea is probably the pre-eminent state with a proven record in provoking crises in the Korean Peninsula and beyond. To make matters worse it possesses nuclear weapons which are perceived as a threat by long-time American allies, Japan and South Korea to name but two. The U.S. has consistently stated that peaceful resolution of the issues on the Korean Peninsula will only be possible if North Korea fundamentally changes its behavior. Washington has called on North Korea to take concrete, irreversible denuclearization steps, to comply with relevant UN Security Council Resolutions and take initiatives to improve relations with its neighbors⁷⁹.

In 2008, before President Obama took office, a cooling tower at the Yongbyon nuclear facility was blown up in front of foreign television cameras and inspectors invited back in to monitor disabling of the facility, heralding a new thaw in relations⁸⁰. When the North Korean regime provided documents on its nuclear program it was removed from the State Department's State Sponsor of Terrorism list⁸¹.

In 2009, however, North Korea conducted another nuclear test (first having taken place in 2006) which led to further U.N. Security Council sanctions which resulted in Pyongyang pulling out of talks⁸². Washington was pleased with the Chinese and Russian reactions to this development whereby both countries condemned North Korea's actions, despite the fact that they had good relations with North Korea. The U.S. joined all the other members of the stalled six-party talks by strongly condemning the test and the subsequent series of short-range missile tests that followed the detonation⁸³.

In August 2009, President Clinton visited North Korea to secure the release of two recently imprisoned American journalists⁸⁴. He was able to secure a pardon and returned to the U.S. with the two journalists. This was the first high level American official visit since 2000, which was reported to have drawn praise and understanding by the North Koreans.

The next year American nuclear experts were invited to observe the uranium program which was revealed publicly for the first time⁸⁵. Tensions were raised in the peninsula when North Korea sank a South Korean naval ship, the Cheonan in March 2010⁸⁶.

Last year talks between the U.S. and North Korea were held in New York and Geneva but progress was halted after the news that Kim Jong Il had died⁸⁷. With Kim Jong Il's son, Kim Jong-un assuming power in late December fresh hopes emanated with regard to North Korea – U.S. relations.

In February 2012 Kim Jong-un announced that North Korea would freeze nuclear tests, long-range missile launches, and uranium enrichment at its Yongbyon plant⁸⁸. Furthermore, the international nuclear inspectors who were ejected in 2009 could now return⁸⁹. President Obama responded to this demarche by offering 240,000 tons of food⁹⁰. This period of good relations was extremely short-lived, however, as two weeks later North Korea announced it would launch a satellite which increased American fears as ventures into satellite launches in technological terms border on missile launches⁹¹.

This action was seen as a vital centerpiece for the ongoing Kim Il-sung centennial celebrations, which given the fact that his son was trying to establish his legitimacy could be interpreted as less malign, rather than an overt demonstration of technological superiority.

Nevertheless, the satellite launch was at odds with the earlier optimistic overture and lent itself to much speculation as to the domestic challenges, be they economic or party-related, that Kim Jong-un was facing. Not surprisingly, the United States suspended the food aid to North Korea in retaliation for this venture.

Overall, President Obama has followed his predecessors in failing to achieve progress in re-establishing international diplomatic efforts to comprehensively halt North Korea's nuclear program. Given that in his first-term President Obama identified the Pacific as a pivot in foreign policy it should come as no surprise that more attention is paid to Pyongyang to either enticing the new leader's stance on maintaining the nuclear status quo and withholding from creating any further crises, or curtailing the new leader's possible peninsular activism.

ix) China

The United States has sought to build both a cooperative and comprehensive relationship with China. The means to reach this goal has been identified as expanding the areas of cooperation, trade being a particularly good example, as well as dealing with areas of disagreement, such as human rights.

The United States strategy has been based around welcoming a strong, peaceful, and prosperous China playing a greater role in world affairs as well as seeking to advance practical cooperation with China in order to build a partnership based on mutual benefit and mutual respect.

The U.S. has sought to fully integrate China into the global economic trading system whilst attempting to expand American exporters' and investors' access to the growing

Chinese market. Closer trading relations are exemplified by the fact that total two-way trade between China and the United States exploded from \$33 billion in 1992 to over \$503 billion in goods in 2011⁹². Henceforth, the United States is currently China's second-largest trading partner (after the EU), and China has become the fourth-largest trading partner for the United States (after the EU, Canada, and Mexico)⁹³.

2012 has witnessed, according to the State Department, both countries announcing "measures to enhance macroeconomic cooperation, promote open trade and investment, enhance international rules and global economic governance, and foster financial market stability and reform"⁹⁴.

Despite the official rhetoric, for Layne⁹⁵ China is a rival, an adversary or a future hegemonic challenger for the United States. Whilst some adhere to this viewpoint, others note the abovementioned extensive economic relationship contributing to mutual prosperity⁹⁶. At the Communist Party Congress held in Beijing the reins of the party for the next decade were handed over to Xi Jinping⁹⁷.

With Mr. Xi now at the helm, managing relations with this new powerful manager of the Communist Party will depend quite heavily on what China wants and where she wishes to go. If aggressive stances with regard to the South China Sea exacerbate maritime disputes with Japan, the Philippines and Vietnam, it will have the effect of Washington being encouraged to act on its self-declared Pacific pivot and enhance its re-balancing towards Asia.

It is unlikely that President Obama will repeat the strategic policy of President Truman: Containment. Whilst that was ultimately a costly but effective instrument to limit the

influence of the Soviet Union, contemporary China scores above the United States in terms of economic growth, territory and population. Furthermore, the United States continues to endure the loss of prestige and trust due to its recent external interventions. Needless to say, any crises or incidents involving Taiwan, the South China Sea – stretching all the way to Australia – will inevitably draw Washington further into the Pacific and East Asia, with the lurking danger that a self-fulfilling prophecy of China becoming the next global adversary coming into fruition.

D- Conclusion

American Presidents in their final terms have tended to focus more on foreign policy. This can be evidenced in the recent past by looking at President Clinton's as well as President George W. Bush's second term. President Obama has already outlined his plans for the next four years in terms of withdrawing troops from Afghanistan and keeping Syria at arm's-length. In terms of the elephant in the room, namely China, the president had already declared in his first term that the Pacific would become the pivot of American foreign policy.

This policy has already been fleshed out as the U.S. has become involved in closer military cooperation with Australia and is continuing to foster and build even denser relations with other Asian countries such as Singapore and Japan⁹⁸. The international challenges facing President Obama are not limited solely to the half dozen countries mentioned above. Quite naturally, the issues that have been raised so far only scratch the tip of the iceberg. They are only the most obvious and salient foreign policy concerns that need to be addressed.

As Harold Macmillan so wisely responded more than half a century ago to what heads of government were most fearful of: "Events,

dear boy, events⁹⁹". Macmillan had remarked that it was "events" which forced prime ministers to react on the international stage, that international developments, were by definition unpredictable. Even earlier, recounting his wartime governmental service, Dean Acheson entitled his memoirs "Present at the Creation" and was correct in identifying his years in the State Department as really being at the point of creation, whereby the new post-war international system came into being¹⁰⁰.

It is highly likely that President Obama's second term will be remembered in history as continuing the gradual decline of American hegemony. In 1991 the United States became the Unipolar power by default through the implosion of the Soviet Union. The next two decades have seen United States take on and carry out the role of a hyperpower¹⁰¹. Though the resurgence of a growing Chinese economy and the fear that this has created in East Asia has forced Washington to focus more closely on the Pacific and acknowledge that a highly capable challenger is on the horizon.

Bismarck said that politics is the art of the possible¹⁰². Who could have predicted in the late 1930s, or even on the aftermath of Pearl Harbor, of an overwhelming American military victory in 1945? Who could have predicted at the end of Ronald Reagan's term of office, with Mikhail Gorbachev as the General Secretary of the Soviet Communist Party that the USSR would recede by 1991 into the dustbin of history? Therefore, one has to tread very carefully down the path of major prediction as the variables are manifold and their trajectories extremely hard to trace. Despite such caveats, it is still possible to assert that President Obama domestically will need to focus on ameliorating the American voter in terms of a fairer tax burden and a more equitable health system. Internationally, he will pool his efforts to maintain the global outreach of the U.S. endeavouring to draw China and Russia into a dynamic system of global governance.

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Annexes

Annex A GDP GROWTH: THIRD QUARTER, 2012



FRIDAY, October 26, 2012

GDP GROWTH PICKS UP IN THIRD QUARTER
Advance Estimate of GDP

Real gross domestic product (GDP) increased 2.0 percent in the third quarter of 2012 after increasing 1.3 percent in the second quarter, according to estimates released today by the Bureau of Economic Analysis.

Third-quarter highlights

The following contributed to the acceleration in real GDP growth:

- Consumer spending on goods accelerated, mainly reflecting an upturn in durable goods; spending on motor vehicles and parts turned up.
- Federal government spending increased, as national defense spending increased in the third quarter after decreasing in the second quarter.
- Inventory investment also contributed to the acceleration in economic growth. An upturn in nonfarm inventory investment was partly offset by a decline (larger than in the second quarter) in farm inventory investment, reflecting the effects of the drought in the Midwest on crop production.
- Residential housing investment accelerated, as single-family structures picked up.



Real GDP growth is measured at seasonally adjusted annual rates.

Offsetting these contributions to faster economic growth, business investment turned down, as spending on equipment and software slowed and spending on nonresidential structures turned negative. Net exports also subtracted from growth; a downturn in exports was only partly offset by a downturn in imports.

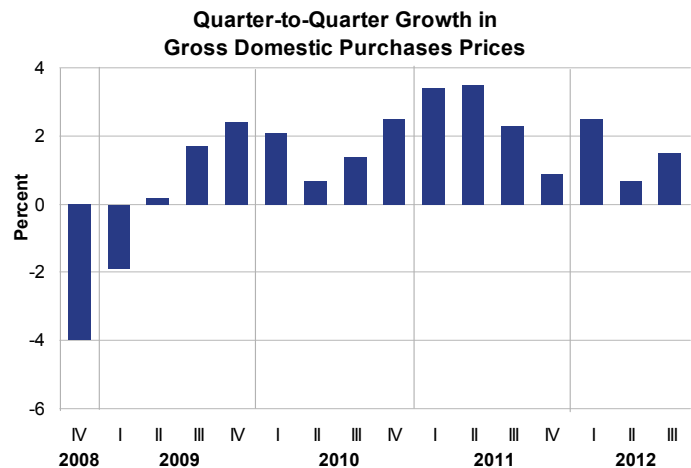
Personal income and personal saving

The personal saving rate—saving as a percentage of disposable personal income—was 3.7 percent in the third quarter, compared with 4.0 percent in the second quarter.

Prices

Prices of goods and services purchased by U.S. residents accelerated in the third quarter, increasing 1.5 percent, following a 0.7 percent increase in the second quarter.

Energy prices turned up, while food prices turned down. Prices less food and energy rose 1.3 percent in the third quarter after rising 1.4 percent in the second quarter.



BEA data—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic data for states, local areas, and industries—are available on the BEA Web site: www.bea.gov. [E-mail](#) alerts are also available.

NOTE: The second estimate of GDP and a preliminary estimate of corporate profits for the third quarter of 2012 will be released on November 29, 2012.

Contact: Ralph Stewart or Jeannine Aversa (202) 606-2649

Bureau of Economic Analysis, U.S. Department of Commerce

Annex B REAL CONSUMER SPENDING: SEPTEMBER, 2012

October 29, 2012



REAL CONSUMER SPENDING PICKS UP IN SEPTEMBER

Personal income increased 0.4 percent in September after increasing 0.1 percent in August. Wages and salaries, the largest component of personal income, increased 0.3 percent in September after increasing 0.1 percent in August. Government social benefits to persons turned up in September.

Current-dollar disposable personal income (DPI), after-tax income, increased 0.4 percent in September after increasing 0.1 percent in August.

Real DPI, income adjusted for taxes and inflation, remained flat in September after decreasing 0.3 percent in August.

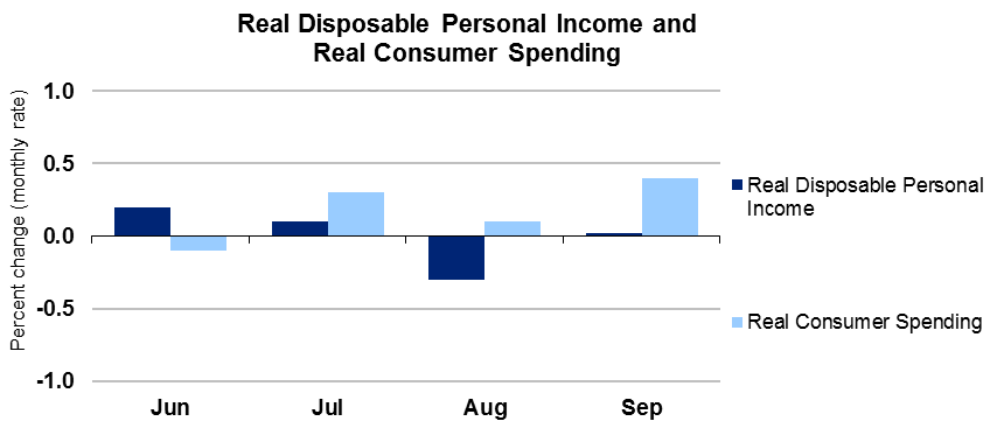
Real consumer spending, spending adjusted for price changes, increased 0.4 percent in September after increasing 0.1 percent in August. Spending on nondurable goods rose 0.5 percent after increasing 0.4 percent, while spending on services increased 0.2 percent after decreasing 0.2 percent.

PCE prices increased 0.4 percent in September, the same increase as in August. Excluding food and energy, the PCE price index increased 0.1 percent in September, the same increase as in August.

Personal saving rate

Personal saving as a percent of DPI was 3.3 percent in September, compared with 3.7 percent in August.

	July	Aug.	Sep.
Personal Income	0.2%	0.1%	0.4%
Current-dollar DPI	0.2%	0.1%	0.4%
Real DPI	0.1%	-0.3%	0.0%
Real PCE	0.3%	0.1%	0.4%
PCE Prices	0.1%	0.4%	0.4%
Personal Saving Rate	4.1%	3.7%	3.3%



BEA data—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic data for states, local areas, and industries—are available on the BEA Web site: www.bea.gov. [E-mail alerts](#) are also available.

NOTE: On November 30, 2012, the October estimates of personal income and outlays will be released.

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Bureau of Economic Analysis, U.S. Department of Commerce

Annex C DURABLE-GOODS MANUFACTURING: 2011



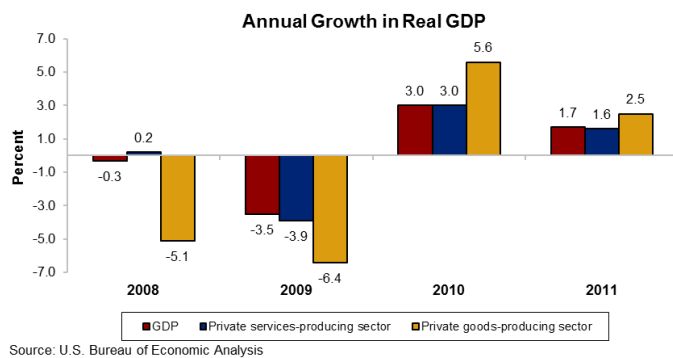
THURSDAY April 26, 2012

Durable-Goods Manufacturing Led Growth in 2011

Advance GDP by Industry Statistics for 2011

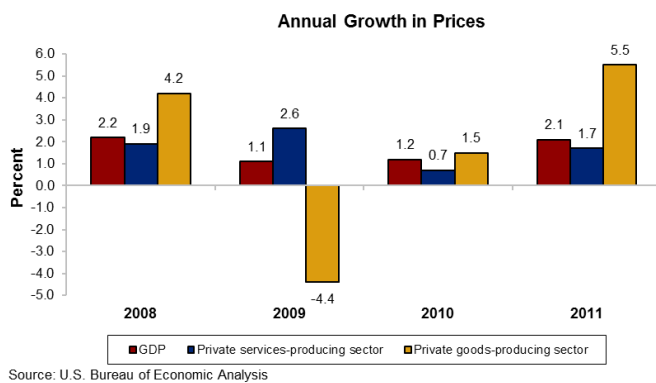
Durable-goods manufacturing, professional, scientific, and technical services, and information services were the leading contributors to U.S. economic growth in 2011, according to advance statistics on the breakout of real gross domestic product (GDP) by industry from the Bureau of Economic Analysis.

- Manufacturing value added rose 4.3 percent, after increasing 11.2 percent in 2010. Durable-goods manufacturing led the growth in 2011, increasing 7.9 percent.
- The services-producing sector grew 1.6 percent, after increasing 3.0 percent in 2010. Professional, scientific, and technical services was the largest contributor, increasing 4.9 percent. Information services accelerated, increasing 5.1 percent after increasing 3.0 percent in 2010.



Value added prices accelerated, increasing 2.1 percent in 2011 after increasing 1.2 percent in 2010.

- Value added prices for the private goods-producing sector increased 5.5 percent in 2011, reflecting upturns in prices in manufacturing and construction. Nondurable-goods prices led the growth in 2011, increasing 7.4 percent.
- Value added prices for the private services-producing sector accelerated in 2011, increasing 1.7 percent after increasing 0.7 percent in 2010. An upturn in retail trade prices was one of the largest contributors to the acceleration in the GDP price index for 2011.



BEA data—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic data for states, local areas, and industries—are available on the BEA Web site: www.bea.gov. [E-mail alerts](#) are also available.

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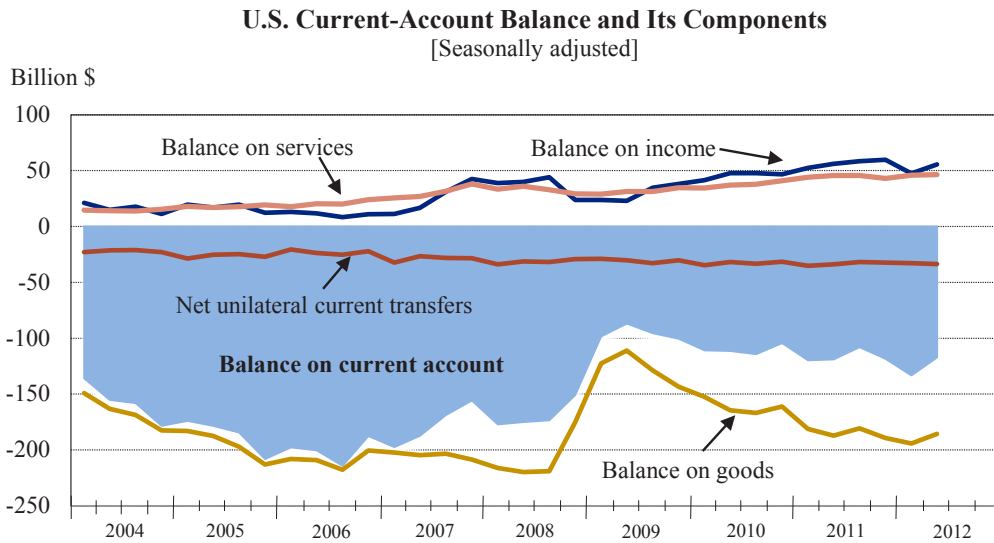
Annex D CURRENT-ACCOUNT DEFICIT: SECOND QUARTER 2012



TUESDAY, September 18, 2012

**U.S. CURRENT-ACCOUNT DEFICIT
DECREASES IN SECOND QUARTER 2012**
Preliminary estimates of U.S. international transactions

The U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—decreased to \$117.4 billion (preliminary) in the second quarter of 2012 from \$133.6 billion (revised) in the first quarter of 2012. As a percentage of U.S. GDP, the deficit decreased to 3.0 percent from 3.5 percent. The previously published current-account deficit for the first quarter was \$137.3 billion.



- The deficit on international trade in goods decreased to \$185.8 billion from \$194.3 billion, as goods exports increased and goods imports decreased.
- The surplus on international trade in services increased to \$46.5 billion from \$45.9 billion, as services receipts increased more than services payments.
- The surplus on income increased to \$55.5 billion from \$47.4 billion, as income payments decreased and income receipts increased.
- Net unilateral current transfers to foreign residents were \$33.6 billion, up from \$32.7 billion.

Net financial inflows were \$88.5 billion in the second quarter, down from \$164.7 billion in the first.

- U.S.-owned assets abroad decreased \$206.8 billion in the second quarter after decreasing \$106.5 billion in the first.
- Foreign-owned assets in the United States decreased \$118.7 billion in the second quarter after increasing \$59.6 billion in the first.

BEA data—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic data for states, local areas, and industries—are available on the BEA Web site: www.bea.gov. [E-mail](#) alerts are also available.

NOTE: The next release of U.S. international transactions will be on December 18, 2012.

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Bureau of Economic Analysis, U.S. Department of Commerce

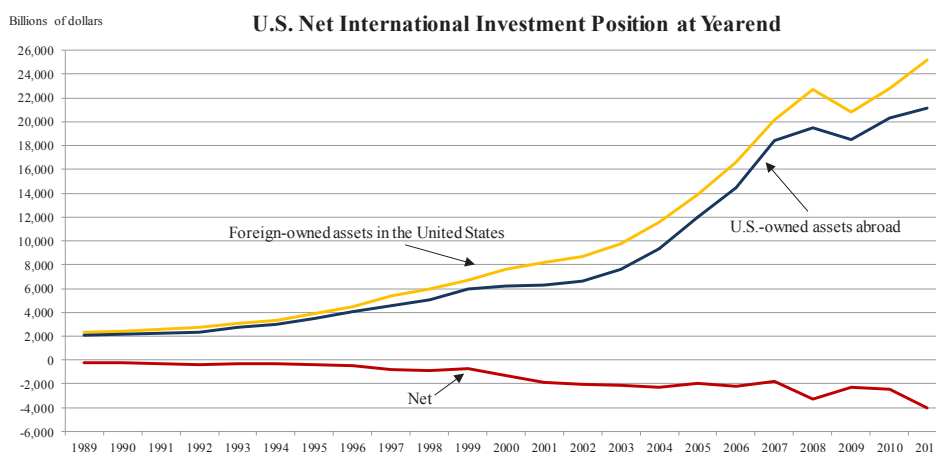
Annex E VALUE OF FOREIGN INVESTMENT IN THE U.S. & VALUE OF U.S. INVESTMENT ABROAD: 2011



TUESDAY June 26, 2012

VALUE OF FOREIGN INVESTMENT IN THE U.S. INCREASED MORE THAN VALUE OF U.S. INVESTMENT ABROAD IN 2011 2011 Yearend U.S. Net International Investment Position

The U.S. net international investment position at yearend 2011 was -\$4,030.3 billion (preliminary), as the value of foreign investment in the United States exceeded the value of U.S. investment abroad. At yearend 2010, the U.S. net international investment position was -\$2,473.6 billion (revised).



- Increases in the prices of U.S. Treasury bonds and declines in foreign stock prices raised the value of foreign investment in the United States and lowered the value of U.S. investment abroad.
- The impact of changes in U.S. and foreign asset prices of -\$802.1 billion accounted for over half of the -\$1.6 trillion change in the U.S. net international investment position.
- Most of the rest of the change in the U.S. net international investment position reflected foreign acquisitions of U.S. assets (including over \$400 billion in U.S. Treasury securities) that exceeded U.S. acquisitions of foreign assets. U.S. acquisitions of foreign assets were reduced by an unusual decline in U.S. claims on foreigners as reported by U.S. banks and securities brokers.
- The appreciation of the U.S. dollar against a trade-weighted index of major currencies caused a change of -\$23.0 billion in the U.S. net international investment position.
- The U.S. net international investment position was equal to 2.6% of the value of all U.S. financial assets at the end of 2011, up from 1.6% in 2010, and up from the recent peak of 2.3% in 2008.¹

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BEA statistics—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic statistics for states, local areas, and industries—are available on the BEA Web site: www.bea.gov. [E-mail alerts](#) are also available.

NOTE: Statistics in this release include direct investment positions valued at current cost. The current-cost method values the U.S. and foreign parents' share of their affiliates' investment in plant and equipment using the current cost of capital equipment, in land using general price indexes, and in inventories using estimates of their replacement cost.

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Bureau of Economic Analysis, U.S. Department of Commerce

Annex F TRADE GAP: SEPTEMBER 2012



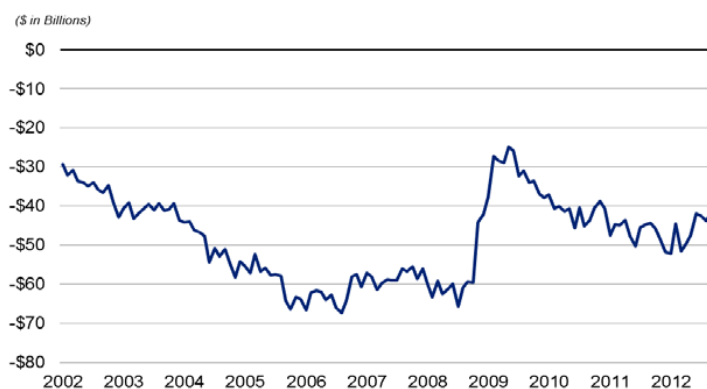
U.S. CENSUS BUREAU
Helping You Make Informed Decisions

THURSDAY November 8, 2012

SEPTEMBER 2012 TRADE GAP IS \$41.5 BILLION
U.S. international trade in goods and services

The U.S. monthly international trade deficit decreased in September 2012, according to the U.S. Bureau of Economic Analysis and the U.S. Census Bureau. The deficit decreased from \$43.8 billion (revised) in August to \$41.5 billion in September, as exports increased more than imports. The previously published August deficit was \$44.2 billion. The goods deficit decreased \$1.4 billion from August to \$57.5 billion in September, and the services surplus increased \$0.8 billion to \$15.9 billion.

Balance on Goods and Services Trade
[Monthly, seasonally adjusted]



Exports

Exports of goods and services increased \$5.6 billion in September to \$187.0 billion, reflecting an increase in exports of goods. Exports of services also increased.

- The increase in exports of goods was mostly accounted for by increases in *industrial supplies and materials* and *foods, feeds, and beverages*.
- The increase in exports of services was accounted for by increases in *travel* and *other private services*, which includes items such as business, professional, and technical services, insurance services, and financial services.

Imports

Imports of goods and services increased \$3.4 billion in September to \$228.5 billion, reflecting an increase in imports of goods. Imports of services decreased.

- The increase in imports of goods mostly reflected increases in *consumer goods* and *industrial supplies and materials*. A decrease in *automotive vehicles, parts, and engines* was partly offsetting.
- The decrease in imports of services was more than accounted for by a decrease in *royalties and license fees* associated with cessation of payments for the rights to broadcast the 2012 Summer Olympic Games in July and August. An increase in *other transportation*, which includes freight and port services, was partly offsetting.

Goods by geographic area (not seasonally adjusted)

- The goods deficit with China increased from \$28.7 billion in August to \$29.1 billion in September. Exports increased \$0.2 billion to \$8.8 billion, while imports increased \$0.6 billion to \$37.8 billion.
- The goods deficit with the European Union decreased from \$11.7 billion in August to \$8.6 billion in September. Exports were virtually unchanged at \$21.3 billion, while imports decreased \$3.1 billion to \$30.0 billion.
- The goods deficit with Japan decreased from \$6.7 billion in August to \$4.8 billion in September. Exports decreased \$0.1 billion to \$6.2 billion, while imports decreased \$2.0 billion to \$11.0 billion.

BEA statistics—including GDP, personal income, the balance of payments, foreign direct investment, the input-output accounts, and economic statistics for states, local areas, and industries—are available on the BEA Web site: www.bea.gov. [E-mail alerts](#) are also available.

NOTE: This and more information is provided in the November 8 news release, U.S. International Trade in Goods and Services: September 2012, issued by the U.S. Bureau of Economic Analysis and the U.S. Census Bureau. The next release is December 11, 2012.

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Goods: Maria Iseman 301-763-2311 U.S. Census Bureau, U.S. Department of Commerce

Annex G A PLAN FOR JOBS & MIDDLE-CLASS SECURITY

★ THE NEW ECONOMIC PATRIOTISM ★

A PLAN FOR JOBS

&

MIDDLE-CLASS SECURITY

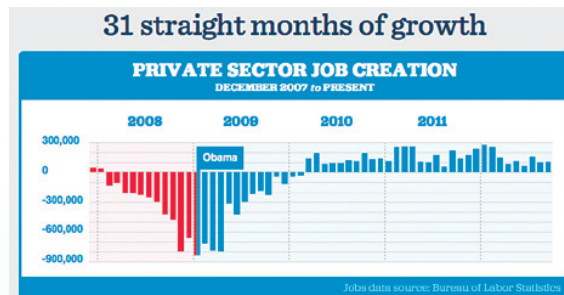
President Barack Obama



“I’m asking the entire country to rally around a set of goals for our country – goals in manufacturing, energy, education, national security and the deficit... This is a real, achievable plan that will lead to new jobs and more opportunity, and rebuild this economy on a stronger foundation.” – President Obama



It's time for a new economic patriotism, rooted in the belief that growing our economy begins with a strong, thriving middle class. Over the past 31 months, American businesses have created 5.2 million jobs. Independent economists project that our economy will create an additional 12 million jobs in the next four years. The President believes we must do even more to grow our economy and strengthen the middle class. The goal of his jobs plan is to strengthen middle-class security by making smart investments in education and training, growing small businesses, promoting technology and innovation, and reducing the deficit.



BUILDING AN ECONOMY FROM THE MIDDLE CLASS OUT

Reviving American Manufacturing. President Obama's policies have helped manufacturing rebound, creating nearly 500,000 jobs in the last 31 months. The President's plan will build on that success, creating 1 million new manufacturing jobs by 2016.

Energy Made in America. Dependence on foreign oil hurts our economy and imperils national security, which is why President Obama has set a goal of cutting our net oil imports in half by 2020. President Obama's policies have helped to cut net imports by nearly 30% in his first term already, and his plans to expand domestic energy production will support more than 600,000 jobs in the natural gas sector alone.


Growing Small Businesses. Small businesses create two out of every three new jobs in America. President Obama has invested in entrepreneurs and small business owners by cutting taxes, helping them expand into markets overseas and working to ensure they can get the capital they need to invest and grow.

Quality Education. A quality education is not a luxury. It is an economic imperative for good-paying jobs, a strong middle class and a workforce that out-innovates the world. President Obama will strengthen our schools by recruiting 100,000 math and science teachers, training 2 million workers for real jobs at community colleges, and cutting tuition growth in half.

Cutting The Deficit By More Than \$4 Trillion. We must return to the principles that made America great, rewarding hard work and responsibility. By eliminating special loopholes and tax breaks that benefit big business and the wealthiest – as part of a balanced deficit reduction plan that also cuts spending we can't afford – we can grow our economy without burdening our children and grandchildren with debt.

Putting YOU in Charge of Your Health Care. Health care costs were skyrocketing and families were denied care. So President Obama passed a landmark law to expand access to affordable insurance, letting young adults stay on their parents' plan until age 26, eliminating lifetime coverage limits, ending denials based on pre-existing conditions, and eliminating cost sharing and other out-of-pocket costs for recommended preventive care.

Protecting Retirement Security. We can choose a future where we cut our deficit without wrecking our middle class. President Obama has put forward a specific, balanced plan of spending cuts and revenue increases providing more than \$4 trillion in deficit reduction over the next decade, without ending guaranteed benefits in Medicare or slashing Social Security.



“We refused to let Detroit go bankrupt. We bet on American workers and American ingenuity, and three years later, that bet is paying off in a big way.” – President Obama

“I will not stand by when our competitors don’t play by the rules. We’ve brought trade cases against China at nearly twice the rate as the last administration – and it’s made a difference.” – President Obama

REVIVING AMERICAN MANUFACTURING

Manufacturing and technology are the life-blood of middle-class families and key engines of the American economy, sparking innovation, generating higher-wage jobs, and strengthening entire communities. But we can't create an economy built to last if America doesn't make things the world buys.

Nearly 500,000 new manufacturing jobs since January 2010.

The American manufacturing sector has rebounded – led by the auto industry rescued by President Obama – fueling 31 straight months of job growth, adding 5.2 million private sector jobs. Manufacturing jobs are growing for the first time since the mid-1990s.

President Obama gave emergency loans to rescue General Motors and Chrysler, saving more than 1 million jobs up and down the auto supply chain and preventing the loss of over \$96 billion in personal income.

President Obama created the National Export Initiative to promote U.S. goods and signed Free Trade Agreements with South Korea, Panama and Columbia, removing trade barriers, expanding access to credit, and putting America on the path to double exports by 2015. **Exports are up 36% since he took office.**

President Obama brought more trade cases against China in four years than the previous president did in eight years and won every one of them that has been decided.

For the first time in years, manufacturing companies are seeking to bring back jobs that were sent overseas, according to the Boston Consulting Group.

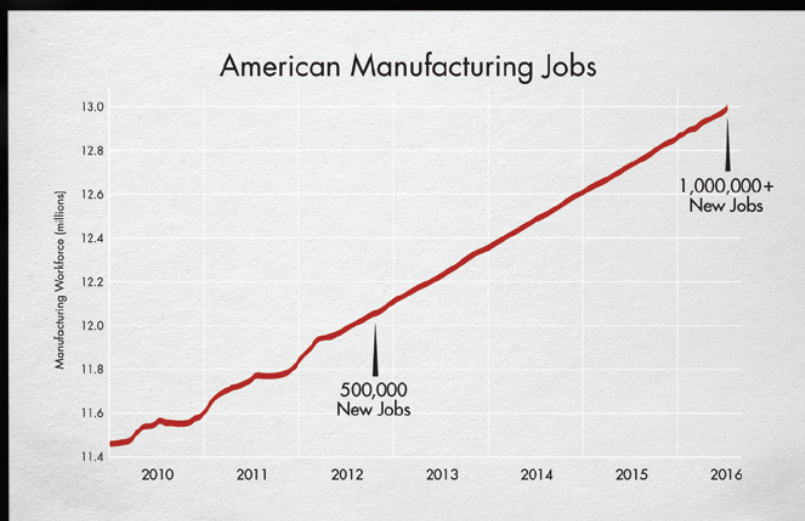
President Obama passed a tax credit for companies to manufacture advanced energy technologies in the U.S., supporting 183 projects in 43 states.

But there's more to do.

A national goal to create 1 million new manufacturing jobs by the end of 2016:

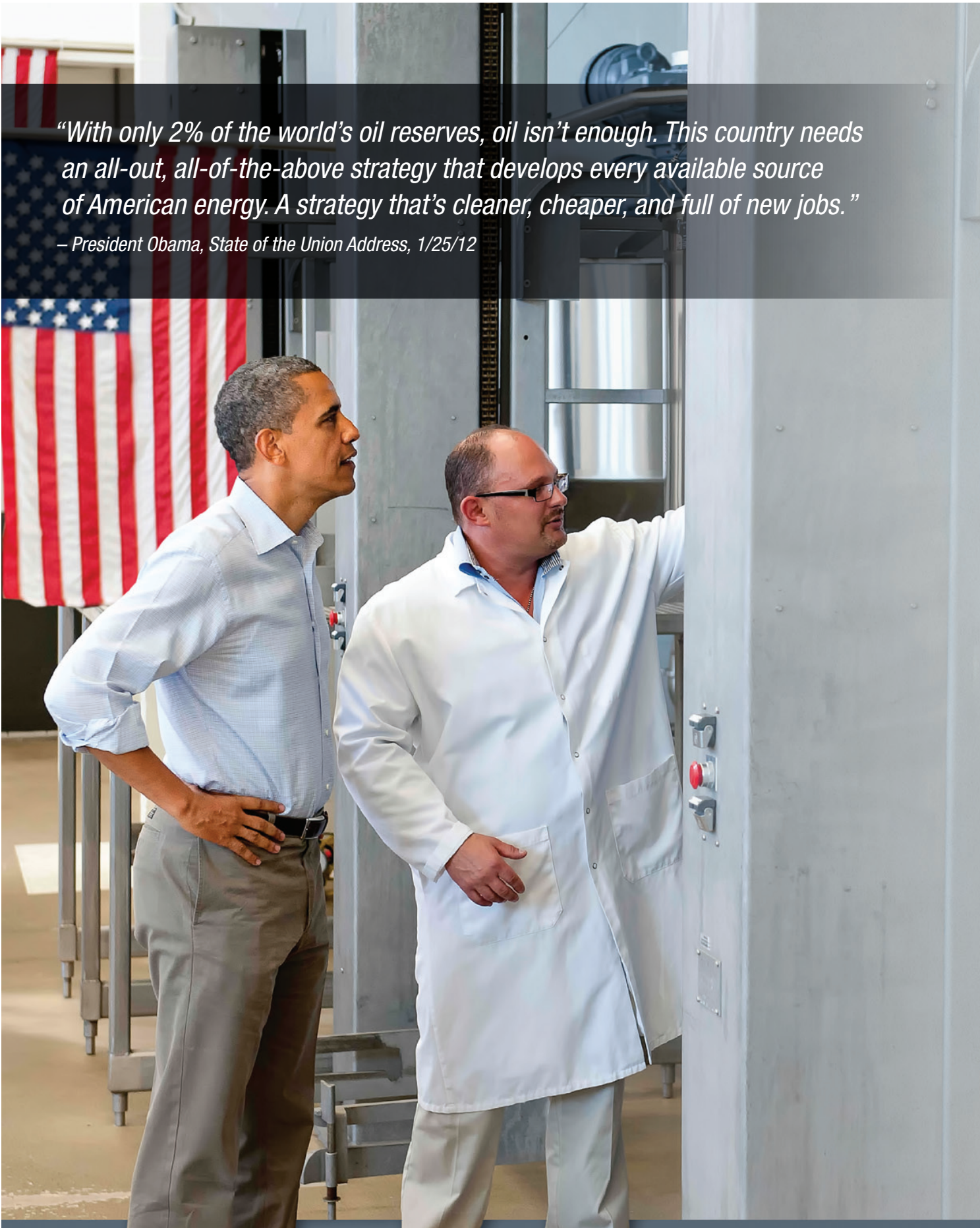
1. Reforming the corporate tax code to bring down tax rates – cutting tax rates on domestic manufacturers by nearly a quarter – while closing tax preferences and loopholes to pay for it.
2. Ending tax deductions for companies shipping jobs overseas, and using the savings to create a new tax credit for companies that bring jobs home.
3. Standing up for American workers and businesses in the global marketplace, taking on China's unfair trade practices through a new trade enforcement unit to level the playing field.
4. Training 2 million workers with the skills for good jobs through new partnerships between community colleges and employers.
5. Creating a new network of 15 to 20 manufacturing innovation institutes to bring together business and research universities to ensure that the next generation of products are invented and manufactured here.

One million new manufacturing jobs can put middle-class people back to work and give new college graduates good jobs right out of school.



“With only 2% of the world’s oil reserves, oil isn’t enough. This country needs an all-out, all-of-the-above strategy that develops every available source of American energy. A strategy that’s cleaner, cheaper, and full of new jobs.”

– President Obama, State of the Union Address, 1/25/12



ENERGY MADE IN AMERICA

We can't fuel our recovery without developing more American-made energy.

To continue to fuel booming exports, the President is leading the fight to safely and responsibly develop all sources of domestic energy to reduce our dependence on foreign oil and while protecting the environment.

What we have done together: *Cutting foreign oil imports to a 20-year low.*

Since President Obama took office, America has regained its position as the world's leading producer of natural gas. We've doubled renewable energy production from wind and solar, and domestic oil production grew to a 14-year high. The result: our dependence on foreign oil is at a 20-year low this year.

The number of oil rigs in production in the United States is now at a 25-year high. Natural gas production is at record levels, and electricity generation from wind, solar, and geothermal is on track to double by the end of 2012. Wind energy production in the US now supports over 75,000 clean energy jobs across the country.

President Obama has made a historic \$5 billion investment in clean coal, our largest source of domestic power, to develop new technologies to capture carbon pollution.

And President Obama has doubled fuel-efficiency standards for cars and trucks.

All of this is putting thousands of Americans back to work.

The way forward: *Expanding underground and clean energy production and cutting foreign oil imports in half by 2020.*

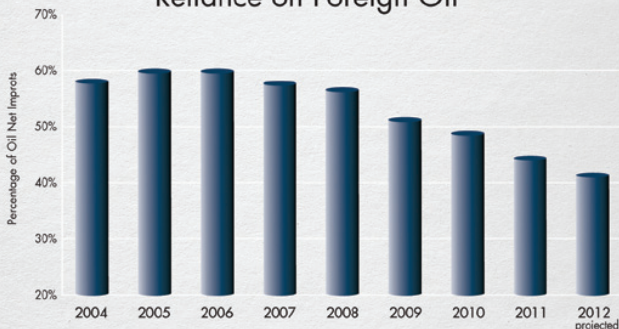
President Obama is pursuing an "all-of-the-above" energy strategy that will produce reliable, affordable energy and take steps to protect our climate:

1. Opening up millions of acres for exploration and development, including undiscovered oil and gas resources in the Gulf of Mexico and the Arctic.
2. Investing in domestic energy sources including wind, solar, clean coal, nuclear, and biofuels. All while increasing our energy efficiency.
3. Doubling fuel economy of cars and light trucks to 54.5 mpg by 2025, which will reduce oil consumption by 2.2 million barrels a day and save consumers more than \$8,000 at the pump.
4. Calling on Congress to build on our success in positioning America to be the world's leading manufacturer in high-tech batteries. President Obama is calling for extending tax credits that support clean energy manufacturing.
5. Setting a standard for utility companies so that 80% of the nation's electricity comes from clean sources by 2035. This will help create a market for American manufacturers to make the clean energy technology we need, while improving access to cheaper, more secure energy for U.S. manufacturers.

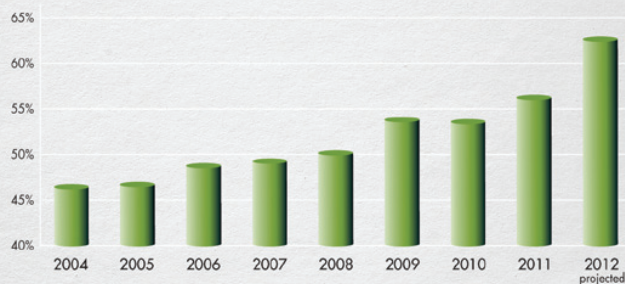
President Obama's plan will grow America's piece of the global clean energy market, creating well-paying jobs here at home, including more than 600,000 jobs in natural gas alone.

And by growing American energy, we can keep our young men and women working here at home, not fighting wars on foreign soil.

Reliance on Foreign Oil



Clean Energy



“I said I would cut taxes for small businesses – who are the drivers and engines of growth – and we’ve cut them 18 times. And I want to continue those tax cuts for middle-class families and for small businesses.”

– President Obama

GROWING SMALL BUSINESSES

From the mom-and-pop storefront shops to high-tech startups, small businesses are the backbone of our economy. These businesses create two out of every three new jobs in America, helping spur economic growth in communities across our country and giving millions the opportunity to achieve the American dream.

But when President Obama took office, American small businesses were struggling under the burden of a credit crunch created by the Wall Street meltdown, runaway health care costs, and the devastating effects of the recession.

President Obama went to work, cutting small business taxes 18 times.

And the President is fighting to continue tax cuts for 97% of small business owners, while passing new relief for businesses that invest and hire.

President Obama signed 18 small business tax cuts into law to encourage more hiring and investing, and is fighting to keep income taxes low for 97% of all small business owners. The President expanded low-cost loans through the Small Business Administration, opening up access to capital for growth.

President Obama provided tax credits for small businesses through the Affordable Care Act, which will cover 50% of costs for small businesses’ health insurance premiums, helping small businesses afford insurance for their workers.



Big plans for Small Business Growth:

1. Cutting taxes for small businesses that hire new workers or increase wages and extending 100% of expensing, letting businesses immediately write off the costs of new plants and equipment.
2. Extending the middle-class income tax cuts which would prevent 97% of small business owners from facing a tax increase.
3. Expanding the health reform tax credit to cover 50% of small businesses' health care costs in 2014 and providing access to group rates, so small businesses won't continue to pay up to 18% more than large firms for health insurance.

After years of economic policy focused on the needs of big business, President Obama's policies level the playing field for small businesses. Last year, there were 60,000 more new businesses started than in the year the President took office, and the share of Americans who are starting new businesses is at a near 16-year high.

With tax incentives for hiring and growth and greater access to capital, especially for women-owned businesses, more Americans can be their own boss and grow their existing businesses.



“You can choose a future where more Americans have the chance to gain the skills they need to compete, no matter how old they are or how much money they have. Education was the gateway to opportunity for me. It was the gateway for Michelle... And now more than ever, it is the gateway to a middle-class life.”

– President Obama, Convention Acceptance Speech, 9/6/12



IMPROVE EDUCATION FOR MIDDLE-CLASS JOBS

Over the next ten years, more than half of all new jobs will require a college degree. Yet, as many as half of our students aren't even finishing high school. Today, the United States is just 14th in the world in the share of adults, age 25 to 34, holding college degrees and certificates. More than ever before, education is the surest path to the middle class and a competitive economy.



That's why the President made major investments and reforms to our education system:

Education begins at home, with parents who read to their kids, set limits on the TV, and instill a lifelong love of learning. But there's no substitute for a good school, or the teacher who stands at the front of the classroom. That's why, even as we faced one of the worst economic crises in history, President Obama worked with states to help save the jobs of 400,000 educators.

The President demanded reform in return for more resources, and for less than one percent of what our country spends on education each year, nearly every state is raising standards for teaching and learning.

President Obama cut the big banks out of the student loan business, and passed the savings directly to students earning their education. He gave nearly 10 million young people Pell Grants and created the American Opportunity Tax Credit to give students up to \$10,000 over four years of college.

President Obama's plan for America's future: Highest proportion of college graduates in the world by 2020 so we can compete and win in the 21st Century economy:

1. **Cutting tuition growth in half over the next ten years.** We can make college more affordable by continuing tax credits to help middle-class families afford college tuition, doubling the number of work-study jobs and creating incentives for schools to keep tuition down.
2. **Recruiting and preparing 100,000 math and science teachers.** We can out-compete China and Germany by out-educating them. The STEM Master Teacher Corps and investments in research and innovation into the best ways to teach math and science will help improve math and science education nationwide.
3. **Strengthen public schools in every community.** Because we can't compete for jobs of the future without educating our children, we must prevent teacher layoffs. We also must expand Race to the Top to additional school districts willing to take on bold reform. The President will offer states committed to reform relief from the worst mandates of No Child Left Behind, like incentives to teach to the test, so they can craft local solutions.
4. **Train 2 million workers for good jobs that actually exist through partnerships between businesses and community colleges.**

President Obama believes investing in our children is the best way to invest in America's future and create opportunity for everyone.



PRESIDENT OBAMA \

Tax Savings Under Obama

In his first term, Obama has already cut taxes for the typical family by **\$3,600**.

(White House National Economic Council, 7/12)

“Asking a billionaire to pay at least as much as his secretary in taxes? Most Americans would call that common sense.” – President Obama

A TAX PLAN THAT CUTS THE DEFICIT AND CREATES JOBS

Upon taking office, President Obama inherited the largest deficit in history, largely caused by putting the costs of two wars on a credit card, giving massive tax cuts for the wealthy that were not paid for, and suffering a historic recession made worse by the financial crisis.

If we're going to restore the security the middle class has lost, we've got to return to the principles that made America great. That means making sure that hard work and responsibility pay. It means rewarding work over wealth. It means eliminating special loopholes and tax breaks that benefit big business and the wealthiest, and asking them to pay a little more.

The Obama Record: Cutting taxes for the Middle Class. Cutting \$1 trillion in spending.

To strengthen the middle class, President Obama passed wide-ranging tax relief for working families, including a payroll tax cut for every American worker, and tax cuts for small businesses to help them weather the recession and spur new private-sector hiring. And the President has provided new tax cuts to help the middle class afford higher education and health care.

Under President Obama, the typical American family saved \$3,600 in taxes over the past four years.

The President has already signed \$1 trillion in spending cuts into law and has put annual domestic spending on track toward its lowest level as a share of the economy since Eisenhower was President.

A balanced approach to reducing the deficit:

Asking the wealthiest to do their fair share while creating an economy which out-educates, out-innovates, and out-builds the world.

1. President Obama's plan reduces the deficit by more than \$4 trillion over the next decade, including \$1 trillion in spending cuts he signed into law last summer, and cutting \$2.50 in spending for every \$1 in additional revenue from the wealthiest families and closing corporate loopholes.
2. The plan makes sure millionaires aren't paying lower tax rates than many middle-class families.
3. President Obama would commit half of the money saved from responsibly ending wars in Iraq and Afghanistan to reducing the deficit and the other half to putting Americans back to work rebuilding roads, bridges, runways, and schools here in the United States.

President Obama's plan keeps middle-class tax cuts in place and reduces the deficit by finally asking millionaires and billionaires to pay their fair share.

It's a plan that grows the economy and puts people back to work, without piling debt on the shoulders of our children and grandchildren.

VS. MITT ROMNEY

Tax Increase Under Romney

Romney's plan raises taxes by more than **\$2,000** on middle-class families with kids.

(Tax Policy Center, 8/1/12)

“It is up to you whether we go back to a health care system that lets insurance companies decide who to cover, when to cover it, whether they can drop you from your coverage whenever you need it most, or whether we keep moving forward with a law that is already cutting costs and covering more people and saving lives. They call it Obamacare. I like that name, because I do care.” – President Obama



PUTTING YOU IN CHARGE OF YOUR HEALTH CARE

Affordable health insurance you can rely on is part of the middle-class bargain. Americans who work hard and pay their premiums should have the security that comes with good health care.

Before President Obama took office, the average cost of health care premiums was growing three to four times faster than inflation, insurance companies were routinely charging women 50% more than men for the same coverage and nearly 15 million young Americans were without health insurance.

America's New Health Care Law - Putting You Back in Charge.

The new health care law puts an end to the worst insurance company abuses.

It gives working families the security of knowing they'll have affordable health insurance options if they lose their job or switch jobs, and their coverage will be there when they get sick. It prevents insurance companies from refusing to cover children with pre-existing conditions and, in 2014, all adults with pre-existing conditions.

And 47 million women will benefit from the health care reform provision that requires health plans to cover life-saving preventive care that women need without out-of-pocket costs.

Young Americans can stay on their parents' plan until age 26. As a result, 3.1 million young adults have already gained health care coverage.

Under Obamacare, insurance companies are required by law to spend 80% of premiums collected on medical care, limiting the amount they can spend on things like overhead and executive pay. If they don't follow this rule, they have to refund money to their customers. Nearly 12.8 million Americans have received more than \$1.1 billion in rebates this year.

Obamacare is working to rein in insurance companies and give people more control over their health care. Starting in 2014, the Obamacare Law:

1. Ensures that all Americans can purchase health coverage, even if they have a pre-existing condition.
2. Creates a marketplace that offers group rates and new tax credits so everyone can afford insurance.
3. Prohibits discrimination in premiums so women don't pay up to 50% more for the same policy as men.
4. Further cuts taxes for small businesses to cover 50% of their premiums.

By putting a stop to insurance company abuses and expanding access to coverage, Obamacare is giving millions of Americans more economic security.



PROTECTING RETIREMENT SECURITY

With each paycheck, American workers contribute some of their hard-earned wages for the promise of a secure and healthy retirement. There's a good reason for that.

Prior to Medicare's inception, one-half of American seniors did not have hospital insurance. And 14 million Americans aged 65 and older would fall into poverty now if they did not receive their Social Security payments.

Medicare is a critical safety net for America's seniors and people with disabilities. Before President Obama took office, mismanagement of Medicare drove the plan 20 years closer to default.

President Obama strengthened Medicare by cutting overpayments to insurance companies and cracking down on billions in health care waste, fraud and abuse. The President added eight years to the Medicare Trust Fund.


And President Obama saved nearly 4 million seniors an average of \$600 last year on their prescription drugs and provided free coverage for recommended preventive care, saving Medicare beneficiaries money and keeping them healthy with regular check-ups and screenings.

President Obama's plan protects American workers' path to a secure retirement and keeps the promises we've made to current and future generations:

1. **Oppose efforts to gamble Social Security on the stock market.** President Obama will fight for balanced deficit reduction, and extend the life of Medicare and Social Security, without ending guaranteed benefits or slashing benefits.
2. **Stop proposals to turn Medicare into a voucher system.** For decades, American workers have contributed some of their hard-earned wages in exchange for guaranteed medical coverage in their retirement.
3. **Save 60,000 lives and \$10 billion for Medicare's future** by partnering with hospitals to reduce inpatient infections and needless readmissions.

Working Americans paid into Social Security and Medicare with every paycheck. President Obama's plan will make sure middle-class families get the secure retirement they have earned.



A photograph showing President Barack Obama in profile on the left, wearing a blue and white checkered shirt. He is looking towards an elderly woman on the right who has white curly hair, wears glasses, and a floral patterned shirt. A young girl with a pink headband is partially visible in the background between them. The scene is brightly lit, suggesting an indoor setting with large windows.

“I will never turn Medicare into a voucher. No American should ever have to spend their golden years at the mercy of insurance companies. They should retire with dignity and the respect that they’ve earned.”

– President Obama

MOVING AMERICA FORWARD

Four years ago, our country faced the worst economic crisis since the Great Depression. The President took bold action to stem the crisis and stimulate our economy and, since that time, America has worked hard to produce 31 straight months of private sector job growth, with businesses large and small creating 5.2 million jobs.

President Obama knows that it is not enough to just recover from the recession – we must create an economy that is built to last, that restores economic security for the middle class and creates a lasting economic recovery. This blueprint for America’s future lays out the steps we need to take together to get us there.



“Over the next few years, big decisions will be made in Washington on jobs, the economy, taxes and deficits, energy, education, war and peace – decisions that will have a huge impact on our lives and our children’s lives for decades to come...”

“It will be a choice between two different paths for America. A choice between two fundamentally different visions for the future. Ours is a fight to restore the values that built the largest middle class and the strongest economy the world has ever known...”

“But know this. Our problems can be solved. Our challenges can be met. We are moving forward, America.” – President Obama



FORWARD.

BarackObama.com/Plans

Obama for America
P.O. Box 803638
Chicago, IL 60680



OFA JP

A BLUEPRINT FOR AMERICA'S FUTURE



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Reviving American Manufacturing p.4



Energy Made in America p.6



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Improve Education for Middle-Class Jobs p.10



A Tax Plan That Cuts the Deficit and Creates Jobs p.12



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