



International Trade and Finance: Key Policy Issues for the 112th Congress

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Summary

The 112th Congress faces a full agenda of international trade and finance issues. Early in 2011, the Obama Administration is expected to ask Congress to approve a free trade agreement (FTA) with South Korea and possibly FTAs with Colombia and Panama. The Administration is seeking to conclude the much larger 10-year-old World Trade Organization's (WTO's) Doha Round of multilateral trade negotiations, which, if completed, would also require congressional approval. The Administration is also negotiating a Trans-Pacific Partnership (TPP) Agreement, a regional FTA that currently includes nine countries on both sides of the Pacific.

A U.S.-South Korea Free Trade Agreement (KORUS FTA) was first negotiated by President George W. Bush's Administration and signed on June 30, 2007. The Obama Administration did not submit it for approval in the 111th Congress due to opposition from U.S. automakers and beef producers. In early December 2010, U.S. trade negotiators won further concessions on autos from the South Korean government, which may allow President Obama to decide to submit the agreement to Congress in 2011. Any vote on this proposed agreement would take place under Trade Promotion Authority (TPA), which allows implementing bills for trade agreements to be considered under expedited legislative procedures—limited debate, no amendments, and an up or down vote. While the proposed KORUS FTA is covered by TPA, which expired on July 1, 2007, many experts argue that TPA would have to be renewed if the United States is to be a credible negotiator at the WTO Doha Round and the TPP discussions.

Any trade debate in the 112th Congress will likely revolve around the perceived effects of trade and FTAs on U.S. stakeholders. Proponents are likely to argue that the FTAs will improve access to foreign markets, increase trade, and create jobs. Critics are likely to assert that the agreements favor corporations over workers, and place downward pressure on wages and labor standards.

In addition to trade agreements and negotiations, U.S. export and import policies will play an important role on the congressional trade agenda. On the export side, the 112th Congress may consider the effectiveness of promoting exports through President Obama's National Export Initiative (NEI), a strategy for doubling U.S. exports by 2015, to help generate new jobs. At the same time, Congress may choose to continue its efforts to review the Administration's proposal to revamp the U.S. export control system that is intended to keep sensitive security-related items from being sold to selective countries. On the import side, Congress may conduct oversight and/or consider legislation on a number of issues dealing with trade remedies, trade preferences, border security and trade facilitation, and miscellaneous tariffs.

As in the 111th Congress, many bills are expected to be introduced in the 112th Congress to help boost U.S. exports to China and to address concerns over Chinese policies that are deemed to negatively affect U.S. economic interests. Legislation encouraging the Administration to take stronger action against China's alleged currency misalignment passed the House by a large bipartisan margin (348-79), but was not acted on in the Senate. These bills and others may be reintroduced in 2011.

On the finance side, requests to increase contributions to the International Monetary Fund (IMF) and several multilateral development banks, including the World Bank, are likely to enter into discussions of the 112th Congress. Congress may also monitor Europe's sovereign debt crisis, particularly the budget support the IMF is providing and the related \$173 billion exposure of U.S. banks to four heavily indebted European countries—Greece, Ireland, Portugal, and Spain.

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Introduction¹

The 112th Congress, in both its legislative and oversight capacities, faces numerous international trade and finance issues. Many of the major issues identified and briefly summarized in this report are ones that Congress confronted in the 111th Congress. Others may emerge for the first time in 2011. All the issues discussed are important to Congress because of their growing effect on the health of the U.S. economy, the success of business, and the standard of living of most Americans. A list of CRS reports covering each of the issues in more detail is provided at the end of the report.

Trade and finance issues are complex, and policy deliberation is often made more challenging by developments in the global economy. First, the world is recovering unevenly from the 2008 global financial crisis, with many developed countries experiencing weak growth compared to large emerging economies. Second, developing country influence is growing, as witnessed by changing trade and investment patterns, as well as the ascendance of the Group of 20 economies (G-20) as a major forum for international policy deliberations. Third, economic tensions emanating from large international imbalances have not eased with the newfound growth of emerging economies.

While the U.S. economy has stabilized and is experiencing strong productivity gains following its worst recession in eight decades, it continues to struggle with weak growth, high unemployment, and a large federal debt. These domestic imbalances are connected to international ones, including the large trade deficit, rising holdings of U.S. debt by foreign countries, and downward pressure on the dollar. The United States has long consumed more than it has produced, giving rise to the expanding trade deficit, which is financed by capital inflows. The counterpart is large saving balances, trade surpluses, and capital outflows in other countries, including China, Japan, and Germany.

The call for “global rebalancing” implies a reversal of these trends, which would require national and foreign responses. For the United States, this would involve increased saving (less spending) relative to investment that would produce a rise in net exports (reduction in trade deficit). Implicit in this mix is a reduction of the fiscal deficit, the major source of U.S. dissaving since 2000. For trade surplus countries, it implies the opposite—an increase in domestic demand and decrease in saving relative to investment that would lead to a fall in net exports (reduction in trade surplus). Rebalancing also implies changes in relative exchange rates, including the likely depreciation of the dollar against major U.S. trade partner currencies.²

On the trade policy side, President Obama is promoting the goal of doubling U.S. exports in five years as one solution to the challenge of generating faster economic and employment growth. The rationale is based on the view that foreign demand is needed to supplement an American consumer likely to spend more frugally in the years ahead and a federal government faced with unsustainable budget deficits. With an estimated 95% of the world’s consumers living outside U.S. borders, some view exports as a critical force for the future growth of the U.S. economy.

¹ Written by J. F. Hornbeck, Specialist in International Trade and Finance, 707-7782

² The fundamentals are covered in Oliver Blanchard and Gian Maria Milesi-Ferretti, *Global Imbalances: In Midstream?*, International Monetary Fund, Staff Position Note 09/29, Washington, D.C., December 22, 2009.

Nevertheless, meeting this goal will be difficult because trade policy is limited in affecting the trade deficit and aggregate output, which will require changes in domestic and foreign macroeconomic policies, vibrant global economic growth, and a competitive (weaker) dollar.

Foreign country policies, however, may not align easily with U.S. priorities. The European Union, for example, is wrestling with its own financial crisis and Japan is mired in persistently slow growth. Large emerging economies, whose recent strong growth represents expanding markets for U.S. goods, may also be turning to less expansionist macroeconomic policies, fearful of overheating fueled in part from large capital inflows. So despite U.S. policies directed at trade promotion and encouraging macroeconomic changes abroad, U.S. economic recovery will depend on a balance of increased domestic investment and demand, which could actually worsen the trade deficit if increased saving is not also part of the mix.³

On the finance side, policy-driven currency misalignments and the specter of “currency wars” point to the other side of the global imbalances problem. Global leaders are discussing the need for more coordinated and equitable exchange rate policies, if not a broader rethinking of the international monetary system. Attention has turned also to the relevance of the International Monetary Fund (IMF) and other multilateral economic institutions in this process, including reevaluating their role, structure, and governance in addressing exchange rate and other policies. A current concern is the threat of competitive devaluations that inflame trade tensions, prevent the rebalancing of the global economy, and undermine the stability of the global economy. China is not alone in this behavior, but receives the most attention because of its closed capital account and \$884 billion of U.S. Treasury security holdings.

U.S. international economic policy must also contend with “globalization,” or the increasing integration of markets and supply chain networks brought about by advances in technology, communications, and transportation, as well as lower barriers to trade. Globalization has spurred tremendous growth in trade, particularly of intermediate goods, which now account for over 60% of the world’s commercial exchange. It has also contributed to rising incomes. In the United States jobs are supported by U.S. exports to foreign affiliates, U.S. production abroad, as well as foreign firms operating in the United States. These complex production arrangements further complicate the trade and employment debate, and raise other questions such as what constitutes an “American-made” product. At the same time, global economic integration has also exposed U.S. firms and workers to increased competition. Because of the larger volume of imports of goods and services, U.S. firms are sometimes forced to make costly adjustments. In some cases, these adjustments have been in the form of layoffs and shifts to production abroad.

In short, U.S. costs and benefits linked to an increasingly interconnected global economy may run in many directions. The discussion no longer simply pits trade liberalization against protectionism. The debate involves domestic and foreign macroeconomic policies, the responses of foreign states, and stability of the international economy. For the United States, an overarching goal is to maintain its high standard of living by remaining innovative, productive, and internationally competitive, while safeguarding those stakeholders who otherwise may be left behind in a fast-changing global economy, suggesting a strong supporting role for complementary domestic policies.

³ On the trade offs and challenges of dealing with the trade deficit, see: CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Policy Options*, by Craig K. Elwell

Congress is in a unique position to address these issues, particularly given its constitutional mandate for legislating and overseeing international trade and financial policy, as discussed below. In addition to the broader congressional oversight of the economic and political context of the current U.S. participation in the global economy, this report highlights major international trade and finance issues Congress may address this year and next.

The Role of Congress in International Trade and Finance⁴

The U.S. Constitution assigns express authority over foreign trade to Congress. Article I, section 8, gives Congress the power to “regulate commerce with foreign nations ...” and to “... lay and collect taxes, duties, imposts, and excises.” For roughly the first 150 years of the United States, Congress exercised its authority over foreign trade by setting tariff rates on all imported products. Congressional trade debates in the 19th century often pitted members from northern manufacturing regions, who benefitted from high tariffs, against those from largely southern raw material exporting regions, who advocated for low tariffs.

A major shift in U.S. trade policy occurred after Congress passed the highly protective “Smoot-Hawley” Tariff Act of 1930, which, by raising U.S. tariffs rates to an all-time high level, led U.S. trading partners to respond in kind. In the process, world trade declined rapidly, exacerbating the impact of the Great Depression. Since the passage of this tariff act, Congress has delegated much of its trade authority to the executive branch. First, Congress enacted the Reciprocal Trade Agreements Act of 1934, which authorized the President to negotiate reciprocal agreements that reduced tariffs within congressionally preapproved levels, and to implement the new tariffs by proclamation without additional legislation. This authority was subject to periodic congressional renewal. Second, Congress enacted the landmark Trade Act of 1974, which required congressional approval for trade agreements that involved changes in U.S. law, including multilateral trade agreements and bilateral and regional free trade agreements. This change responded to the growing role of non-tariff barriers, such as government regulations, in trade and trade agreement negotiations, and has been amended many times since 1974.

In the Trade Act of 1974, Congress also enacted so-called “fast track” trade authority (now called trade promotion authority—TPA), which allows implementing bills for trade agreements to be considered under expedited legislative procedures—limited debate, no amendments, and an up or down vote—provided the President observes certain statutory obligations in negotiating trade agreements, including pursuing certain trade negotiating objectives and notifying and consulting with Congress. The purpose of TPA is to preserve the constitutional role of Congress with respect to consideration of implementing legislation for trade agreements that require changes in domestic law, while also bolstering the negotiating credibility of the executive branch. TPA is subject to renewal and the latest authority expired on July 1, 2007. Three pending free trade agreements—with Colombia, Panama and South Korea—were negotiated under TPA .

The 112th Congress may consider renewal of TPA. Because of TPA’s special provisions governing trade implementing bills, its renewal is widely considered necessary to approve and implement new FTAs. TPA is not, however, a prerequisite for initiating or concluding trade agreement

⁴ Written by William H. Cooper, Specialist in International Trade and Finance, 707-7749.

negotiations, and positions differ in Congress as to when there may be need for new legislation. Many experts argue that TPA would have to be renewed if the United States is to be a credible negotiator in concluding the Doha Round and in advancing the Trans-Pacific Partnership regional free trade negotiations.

Congress also exercises trade policy authority through the enactment of laws authorizing trade programs and governing trade policy generally. These include such areas as tariffs; non-tariff barriers; trade remedies; import and export policies; political and economic security; and the trade policy functions of the federal government. In addition, Congress conducts oversight of the implementation of trade policies.

Congress has an important role in international finance as well. It has the ultimate authority over the level of U.S. financial commitments to the multilateral development banks (MDBs), including the World Bank, and to the International Monetary Fund (IMF). The 112th Congress may consider funding levels for the MDBs. Congress also has oversight responsibilities over these institutions, as well as the Federal Reserve and the Treasury Department, whose activities affect international capital flows.

Policy Issues for Congress

Trade Agreements and Negotiations⁵

Among the trade issues for the 112th Congress are three proposed, comprehensive bilateral free trade agreements (FTAs), the stalled WTO Doha Round, and negotiations for an Asian-Pacific regional free trade agreement. During the George W. Bush Administration, the United States negotiated and, upon congressional approval, implemented eight FTAs with 13 countries.⁶ The Bush Administration also concluded negotiations on three additional FTAs with Colombia, Panama, and South Korea, but these agreements have not been implemented. The multilateral WTO Doha Round continues into its 10th year in Geneva, with significant differences remaining between and among developed and developing countries. The Bush Administration also began, and the Obama Administration has continued, negotiations with the countries of the Trans-Pacific Partnership (TPP)—now nine countries—to create an Asia-Pacific regional free trade agreement.

U.S.-South Korea Free Trade Agreement⁷

The proposed U.S.-South Korean Free Trade Agreement (KORUS FTA), signed on June 30, 2007, would be the second-largest FTA in terms of trade coverage (next to the North American Free Trade Agreement, NAFTA) in which the United States participates; however, concerns of some members of Congress over South Korea's treatment of imports of U.S. autos and beef prevented President Bush and President Obama from submitting implementing legislation to

⁵ Written by M. Angeles Villarreal, Specialist in International Trade and Finance, 707-0321.

⁶ The United States currently has 11 FTAs in force comprising 17 countries. In chronological order, they are Israel, North American Free Trade Agreement or NAFTA (comprising Canada and Mexico), Jordan, Chile, Singapore, Australia, Morocco, Oman, Bahrain, Central American Free Trade Agreement (comprising Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Dominican Republic), and Peru.

⁷ Written by William H. Cooper, Specialist in International Trade and Finance, 707-7749.

Congress. In early December 2010, U.S. trade negotiators won further concessions on autos from the South Korean government, allowing President Obama to decide to submit legislation to implement the agreement early in the 112th Congress. On the beef issue, the two sides agreed to “continued dialogue and consultation.” As a result of the changes negotiated, all three Detroit-based auto manufacturers support the agreement, as does the United Auto Workers (UAW) and most of the U.S. business community. It is still opposed by the AFL-CIO and some other unions. USTR Ron Kirk has indicated that the Administration will seek to have the agreement approved by Congress by July 1, 2011.

Under the KORUS FTA, most U.S.-South Korean trade in *consumer and industrial products* would become duty-free within three years after the agreement enters into force, and virtually all remaining tariffs would be lifted within 10 years. The two countries agreed to substantially liberalize trade in *services* and *agriculture*. For the latter, South Korea immediately would grant duty-free status to almost two-thirds of U.S. agricultural exports. Economic studies estimate that U.S. exports of goods and services would likely increase by \$9.7 billion to \$10.9 billion, and U.S. imports by \$6.9 billion if the KORUS FTA is fully implemented.

U.S. supporters generally view passage of the KORUS FTA as important to secure new trade and investment opportunities in the South Korean market. Some opponents claim that the KORUS FTA does not go far enough to preserve U.S. jobs. Others assert that FTA provisions impinge on U.S. sovereignty. Some observers have suggested that the outcome of the KORUS FTA could have implications for the U.S.-South Korean alliance as a whole, as well as on U.S. Asia policy and U.S. trade policy, particularly in light of an FTA signed in October 2010 between South Korea and the European Union.

U.S.-Colombia Free Trade Agreement⁸

The proposed U.S.-Colombia Trade Promotion Agreement, often called the U.S.-Colombia Free Trade Agreement, was signed on November 22, 2006. Approximately 80% of U.S. commercial and industrial exports to Colombia would immediately achieve duty-free status upon implementation of the agreement, and the remaining tariffs on these goods would be phased out over the next 10 years. Tariffs on agricultural products, considered the most sensitive issue in the negotiations, would be phased out over periods of up to 19 years. Almost 90% of products from Colombia currently enter the U.S. market duty-free under U.S. trade preference programs or through normal trade relations, while most U.S. exports to Colombia face duties of up to 20%. Economic studies project that, upon full implementation, the agreement’s impact on the United States would be very small, though positive, because trade with Colombia accounts for less than 1% of total U.S. trade. Congressional debate on the agreement has mostly focused on the alleged violence against labor union leaders in Colombia. Because implementing legislation for the U.S.-Colombia FTA was submitted in the 110th Congress, the agreement would not necessarily be eligible for TPA or “fast-track” consideration in the 112th Congress. Implementing legislation, however, could still be reintroduced in the 112th Congress under the general rules of both houses, and could be considered in the House under a TPA-like procedure pursuant to a special rule reported by the Committee on Rules and approved by the House.

⁸ Written by M. Angeles Villarreal, Specialist in International Trade and Finance, 707-0321.

U.S.-Panama Free Trade Agreement⁹

The proposed U.S.-Panama Free Trade Agreement was signed on June 28, 2007. Approximately 88% of U.S. commercial and industrial exports would become duty-free upon implementation, and the remaining tariffs on these goods would be phased out over a 10-year period. In agricultural goods, over 60% of U.S. exports to Panama also would achieve immediate duty-free status, with remaining tariffs to be phased out over a 17-year period (20 years for rice). Panama actually trades relatively little with the United States, even by Latin American standards. Therefore, although certain industries may be affected to some degree, the FTA would not have a major effect on the U.S. economy as a whole.

Two issues have received particular congressional attention. The first deals with Panamanian labor statutes, which some members of Congress would like to see amended so that the minimum number of workers required to start a union would be reduced from 40 to 20. Reportedly there is little interest in Panama in making this change, even among labor groups, but Panama is updating the labor code to standardize language nationally with respect to clarifying collective bargaining and right to strike language covering export processing zones. The second concern is related to questions raised over tax transparency issues, which may have been defused by the November 30, 2010, signing of the U.S.-Panama Tax Information and Exchange Agreement (TIEA).

The WTO and WTO Doha Round¹⁰

The World Trade Organization (WTO) is an international organization that administers the trade rules and agreements negotiated by 153 participating parties, and serves as a forum for dispute settlement and trade negotiations. The United States was a major force behind the creation of the WTO in 1993 and the establishment of new rules and trade liberalization that occurred as a result of the Uruguay Round of multilateral trade negotiations (1986-1994). The WTO succeeded the General Agreement on Tariffs and Trade (GATT), first established in 1947.

The WTO Doha Round of multilateral trade negotiations, begun in November 2001, has entered its 10th year of negotiation. The negotiations have been characterized by persistent differences among the United States, the European Union, and developing countries on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies. Partly as a result of being labeled a development round to entice developing countries to participate in the first place, developing countries (including emerging economic powerhouses such as China, Brazil, and India) have sought the reduction of agriculture tariffs and subsidies among developed countries, non-reciprocal market access for manufacturing sectors, and protection for their services industries. Developed countries have sought increased access to developing countries' industrial and services sectors while attempting to retain some measure of protection for their agricultural sectors. Given the differences, there is frustration over the ability of WTO member states to reach a comprehensive trade agreement.

Disputes arising under existing WTO agreements are heard under the WTO Dispute Settlement Understanding (DSU), which significantly strengthened the earlier General Agreement on Tariffs and Trade (GATT) dispute settlement mechanism. The new system has been widely used since its inception, with the United States an active participant as a complainant, defendant, and third

⁹ Written by J.F. Hornbeck, Specialist in International Trade and Finance, 707-7782.

¹⁰ Written by Ian F. Fergusson, Specialist in International Trade and Finance, 707-4997.

party. How U.S. interests fare under the DSU may become the subject of oversight hearings in 112th Congress.

While Congress does not vote on WTO accession agreements, Congress has the authority to approve permanent normal trade relations (PNTR) status for some countries, such as Russia, that are in the process of acceding to the WTO. In the case of Russia, for example, it could do so by repealing the application of the Jackson-Vanik Amendment to the Trade Act of 1974. Granting PNTR would fulfill the WTO requirement that its members grant to one another unconditional most-favored-nation treatment (MFN), called PNTR in the United States. During the 112th Congress, members may face the issue of whether to extend PNTR to Russia or to other countries acceding to the WTO.

Trans-Pacific Partnership¹¹

The Trans-Pacific Partnership (TPP) is an evolving regional FTA which may become a vehicle to create a wider Asian-Pacific free trade area, as well as a U.S. policy response to the rapidly increasing economic and strategic linkages among Asian states. The TPP was originally an FTA among Singapore, New Zealand, Chile, and Brunei; however, the United States, Australia, Peru, and Vietnam joined the negotiations in the fall of 2008. President Obama endorsed the negotiations in November 2009, and three rounds of negotiations were held in 2010, with Malaysia joining as a full partner during the third round. In addition, interest has been expressed by Canada, Japan, and South Korea in joining this emerging trade grouping.

The goal of the TPP is to create a high-level, comprehensive FTA covering goods, services, agriculture, investment, intellectual property rights, government procurement, competition, labor, environmental, and disciplines on non-tariff barriers, to which other nations can accede. The partners are also discussing new issues such as supply chain management, regulatory coherence, and the participation of small and medium-sized enterprises to create what the Obama Administration calls a “21st century trade agreement.” Should TPP negotiations conclude in the near future, the 112th Congress may consider legislation to approve and implement the agreement.

China¹²

U.S.-Chinese economic ties have deepened extensively over the past three decades. China is the United States’ second-largest trading partner, its largest source of imports, and its third-largest export market. Since embarking on economic reforms in 1979, China has been one of the world’s fastest-growing economies. Total U.S.-China trade rose from \$2 billion in 1979 to an estimated \$452 billion in 2010. China is also a major part of the global supply chain for U.S. companies as a source of their production of consumer products or parts that are used as inputs for manufactured products in the United States. China’s large-scale purchases of U.S. Treasury securities have helped the federal government finance its budget deficits, thus helping to keep U.S. real interest rates relatively low.¹³ Low-cost imports from China benefit U.S. consumers and help control inflation. Over the past decade or so, China has been the fastest growing U.S. export market. Yet, the United States faces a number of important trade-related issues in its relationship with China.

¹¹ Written by Ian F. Fergusson, Specialist in International Trade and Finance, 707-4997.

¹² Written by Wayne M. Morrison, Specialist in Asian Trade and Finance, 707-7767.

¹³ China is the largest foreign holder of U.S. Treasury securities, at \$896 billion as of November 2010.

Major Trade Issues

China's accession to the WTO in 2001 was an important step in China's transition toward a market-based economic system and a more open trade regime. However, commercial ties have become strained in recent years over China's growing use of distortive economic and trade policies that many contend violate its WTO commitments, harm U.S. economic interests, and are large responsible for large and growing U.S. trade deficits with China (which totaled about \$274 billion in 2010). Some members contend that, given the high rate of U.S. unemployment, unfair Chinese trade policies can no longer be tolerated. Some of the policies of greatest concern to Congress have included China's undervalued currency, its poor record on protecting U.S. intellectual property rights (IPR), and its growing use of industrial policies to promote and protect domestic industries.

Since 1994, the Chinese government has maintained a policy of intervening in currency markets to limit or halt the appreciation of its currency, the renminbi (RMB), against the U.S. dollar. Critics charge that this policy has made Chinese exports to the United States significantly cheaper and U.S. exports to China more expensive than would occur under free market conditions. They claim that this practice is the main cause of the large annual U.S. trade deficits with China and the extensive loss of U.S. manufacturing jobs in recent years. In addition, some economists claim that China's currency policy induces other countries to intervene in currency markets in an effort to hold down the value of their currencies against the dollar in order to enable their firms to remain competitive vis-à-vis Chinese firms. This has raised concerns that such actions may result in competitive devaluations, which may worsen economic imbalances and lead to greater trade protectionism. In a move clearly directed at China, on September 29, 2010, the House approved an amendment in the nature of a substitute to H.R. 2378, which would have treated certain fundamentally undervalued currencies as an actionable subsidy under U.S. countervailing duties laws dealing with government-subsidized exports. No Senate action was taken.

On the other hand, some economists have argued that a stronger RMB would not affect the overall U.S. trade deficit as U.S. consumers would likely shift from imports from China to imports from other low-wage suppliers, for example, Vietnam. In addition, they argue that a stronger RMB would not affect U.S. jobs because most of the products the United States imports from China have not been produced in the United States in many years.

Lack of effective and consistent protection and enforcement in China of U.S. IPR have been cited by U.S. firms as one of the most significant problems they face in doing business in China. Although China has significantly improved its IPR protection regime over the past few years, U.S. industry officials complain that piracy rates in China remain very high. Business software piracy in China alone is estimated to have cost U.S. firms \$3.4 billion in lost trade in 2009.

Numerous policies have been implemented by China to promote the development of industries deemed critical for future economic growth. The Chinese government recently announced that one of its central goals is to change the country from a major manufacturing center to a major global source of innovation within 15 years. To that end, China has subsidized several priority industries (e.g., aerospace, renewable energy, computer science, and life sciences). In addition, it has implemented discriminatory trade and investment policies to assist Chinese firms, such as limiting competition from foreign firms or inducing foreign firms to set up operations in China and share their technology with Chinese partners in exchange for access to China's huge market.

Several U.S. companies have complained about a number of recent Chinese government circulars that would establish an “Indigenous Innovation Product Accreditation” system for public procurement projects, estimated to be worth \$88 billion annually. U.S. firms charge the policy is “protectionist” because it would require that Chinese public procurement projects provide preference to suppliers who have been accredited by the government as having developed their intellectual property in China.

During the state visit of Chinese president Hu Jintao to the United States in January 2011, the White House announced that Chinese and U.S. firms had concluded a number of commercial agreements, which are estimated to generate \$45 billion in increased U.S. exports to China. The White House further indicated that China had agreed to further strengthen IPR protection (such as taking new steps to ensure that Chinese government agencies use legal software), to eliminate discriminatory innovation policies on government procurement, and to submit a robust revised offer to join the WTO’s Government Procurement Agreement (GPA) sometime in 2011.

Challenges for the 112th Congress

Opinions differ as to the most effective way of dealing with China on major economic issues. Some support a policy of engagement with China using various forums, such as the U.S.-China Strategic and Economic Dialogue (which holds government discussions on major issues at the cabinet level). Others support a somewhat mixed policy of using engagement when possible, coupled with a more aggressive use of WTO dispute settlement procedures to address China’s unfair trade policies. Still others, who see China as a growing threat to the U.S. economy and the global trading system, advocate a policy of trying to contain China’s economic power and using punitive measures when needed to force China to “play by the rules.”

How the United States responds to China’s economic rise and how it deals with China on major bilateral trade disputes are likely to be closely monitored by the 112th Congress. Some members may press the Administration to boost efforts to induce China to abide by its WTO commitments, including by bringing more trade dispute resolution cases against China in the WTO. They may also introduce new bills that seek to address China’s currency policy, trade restrictions, and lack of effective IPR protection.

Export Promotion and Financing¹⁴

For many years, the U.S. government has promoted exports by providing credit, finance, and insurance programs that are administered by the Export-Import Bank (Ex-Im Bank), the Department of Agriculture, and the Overseas Private Investment Corporation (OPIC). In addition, the Department of Commerce, through the International Trade Administration, promotes U.S. exports of goods and services, particularly by small and medium-sized companies. This issue has been elevated with the Obama Administration’s introduction of the National Export Initiative (NEI) in the 2010 State of the Union Address.

The 112th Congress may consider issues such as the effectiveness of promoting exports through the NEI or alternate approaches; the role in the NEI of federal agencies involved in export promotion; coordination of federal export promotion efforts, the adequacy of federal resources for

¹⁴ Written by Shayerah Ilias, Analyst in International Trade and Finance, 707-9253.

export assistance, and the reauthorization of Ex-Im Bank and OPIC. The heightened focus on export promotion by the Administration could be an opportunity for Congress to clarify national export promotion goals and policies.

National Export Initiative

The NEI, announced by President Obama in the 2010 State of the Union address and formalized by Executive Order 13534, is a strategy for doubling U.S. exports over the next five years, to help generate 2 million new U.S. jobs. The NEI is designed to improve coordination and funding of federal export promotion activities; provide greater U.S. export financing; enhance government advocacy on behalf of U.S. exporters; and negotiate new trade agreements and enforce existing trade agreements more robustly. The NEI also focuses on facilitating exports by U.S. small businesses and promoting “green” exports. In addition, the NEI established an Export Promotion Cabinet, which includes Secretaries or Directors of key federal agencies involved in export promotion and is to coordinate with the existing Trade Promotion Coordinating Committee (TPCC) on implementing the NEI.¹⁵

Members of Congress enjoy no consensus over the effectiveness of the NEI in facilitating U.S. exports. Some policymakers welcome its high-level focus on export promotion, while others contend that the NEI amounts to bureaucratic reorganization and fails to address shortcomings in federal efforts. Some contend that the NEI’s focus on direct forms of export assistance will have marginal effects on export levels. They encourage the Administration to focus more on broader trade and macroeconomic policy issues—such as securing congressional approval of pending U.S. free trade agreements, reducing foreign trade barriers, addressing foreign currency intervention issues, and working to rebalance the global economy—which they consider to be more effective mechanisms for boosting exports.

Reauthorization of the Export-Import (Ex-Im) Bank and Overseas Private Investment Corporation (OPIC)

Ex-Im Bank and OPIC are among the core federal agencies involved in export promotion. Ex-Im Bank provides direct loans, guarantees, and insurance to help finance U.S. exports, when the private sector is unable or unwilling to do so, with the goal of contributing to U.S. employment. OPIC, based on U.S. foreign policy objectives, provides political risk insurance and finance to support U.S. investment in developing countries, which may contribute to U.S. exports and employment. Both agencies are self-sustaining; they use offsetting collections, generated from fees charged for their services and other sources, to fund their activities. However, Congress, as part of its legislative responsibilities, approves an annual appropriation that sets an upper limit on each of the agencies’ administrative and program expenses.

The 112th Congress may consider legislation to renew the authorities of Ex-Im Bank and OPIC, which expire on September 30, 2011.¹⁶ Congressional review may take place in the context of the

¹⁵ *Report to the President on the National Export Initiative: The Export Promotion Cabinet’s Plan for Doubling U.S. Exports in Five Years*, Washington, D.C., September 2010. The inter-agency TPPC was established by executive order in 1993 to coordinate the export promotion and export financing activities of the executive branch.

¹⁶ The Export-Import Bank Reauthorization Act of 2006 (P.L. 109-438), enacted on December 20, 2006, reauthorized Ex-Im Bank’s authority through September 30, 2011. The most recent long-term, stand-alone reauthorization of OPIC was through the Overseas Private Investment Corporation Amendments Act of 2003 (P.L. 108-158), which (continued...)

agencies' role in the NEI and concerns about the size and scope of the federal government. Reauthorization may raise several issues for Congress, including:

- Advocates of federal export promotion activities, such as those of Ex-Im Bank and OPIC, argue that such efforts address market failures and help to offset foreign governments' export promotion efforts.¹⁷ Others hold that government involvement in export promotion distorts market conditions by displacing private sector activity and encouraging commercially unviable activities.
- Ex-Im Bank and OPIC assert that their self-sustaining programs support U.S. exports and jobs without burdening U.S. taxpayers. Others contend that, because their transactions are backed by the full faith and credit of the U.S. government, the agencies place a potential risk on taxpayers if they suffer losses.
- Congress requires Ex-Im Bank and OPIC's programs and transactions to meet criteria in areas such as U.S. and host country economic impacts, U.S. small business interests, environmental issues, and foreign policy. While supporters may defend the importance of striking a balance among multiple U.S. policy goals, certain industry groups argue that such requirements constrain U.S. export levels; limit U.S. competitiveness vis-à-vis the official credit agencies of foreign countries, such as China, which place fewer restrictions on their export programs; and, blur the missions of the agencies.

In the 111th Congress, legislation to extend OPIC's reauthorization was introduced in the Senate (S. 705) and in the House (H.R. 5975). Similar legislation to extend Ex-Im Bank beyond its current authorization was not introduced in the 111th Congress.

Export Controls and Sanctions¹⁸

Congress has authorized the President to control the export of various items for national security, foreign policy, and economic reasons. Separate programs and statutes for controlling different types of exports exist for nuclear materials and technology, defense articles and services, and dual-use goods and technology. Under each program, licenses of various types are required before an export can be undertaken. The Departments of Commerce, State, and Defense administer these programs. At the same time, Congress also legislates country-specific sanctions that restrict aid, trade, and other transactions to address U.S. concerns about proliferation, regional stability, and human rights. In the 112th Congress, these controls and sanctions may raise difficult issues of how to balance U.S. foreign policy and national security objectives against U.S. commercial and economic interests.

(...continued)

reauthorized OPIC through November 1, 2007. Since then, OPIC's authority has been extended through annual appropriations vehicles for varying periods of up to a year.

¹⁷ Market failures such as imperfect information and barriers to entry may constrain U.S. exporters in international markets.

¹⁸ Written by Raymond J. Ahearn, Specialist in International Trade and Finance, 707-7629.

The President's Export Control Initiative¹⁹

During the 111th Congress, the Obama Administration announced the launch of a comprehensive review of the U.S. export control system. In the current system, responsibility for controlling exports is divided among the Commerce, State, and Treasury Departments based on the nature of the product (munitions or dual-use goods) and basis for control, with enforcement shared among these agencies as well as the Departments of Justice and Homeland Security. Defense Secretary Robert M. Gates announced key elements of the Administration's agenda for reform in a speech on April 20, 2010, with additional elaborations in subsequent months. Secretary Gates proposed a 4-pronged approach that would create a single export control licensing agency for both dual-use and munitions exports, adopt a unified control list, create a single integrated information technology system, which would include a single database of sanctioned and denied parties, and establish a single enforcement coordination agency.

The Administration's blueprint envisions that these changes would be implemented in three phases with the final tier requiring legislative action. To date, efforts have been undertaken to harmonize the Commerce Control List (CCL) which focuses on dual-use items, with the U.S. Munitions List (USML) and to establish a tiered control structure that would allow items to "cascade" from tier-to-tier as technology evolves. An Export Enforcement Coordination Center, which was created by executive order on November 9, 2010, is to be housed and funded by the Department of Homeland Security to synchronize enforcement efforts. Beginning in January 2011, the Commerce Department is to post a consolidated denied party list from all U.S. federal agencies.

In the 112th Congress, members may scrutinize this effort through oversight and may need to approve certain changes proposed by the Administration. Congressional notification would be required if items are moved from the munitions list to the dual-use list. Unilateral controls on certain items may also be examined, especially if they result from congressionally mandated sanctions. In addition, changes in agency structure may require legislation and may be proposed in the 112th Congress. The creation and placement of the proposed licensing agency, either within an existing Department such as Commerce, State, Defense, or Homeland Security, or as an independent entity, also has not been determined; each choice would claim proponents and detractors. Conversely, Congress may consider a rewrite or reauthorization of the currently expired Export Administration Act, thus renewing the statutory basis of the current system.

Economic Sanctions²⁰

Policymakers continue to rely on economic sanctions as a valuable asset in the national security and foreign policy toolbox. Defined as coercive economic measures taken against a target to bring about a change in policies, economic sanctions typically include measures such as trade embargoes; restrictions on particular exports or imports; denial of foreign assistance, loans, and investments; or control of foreign assets and economic transactions that involve U.S. citizens or businesses. The United States currently maintains robust sanctions regimes against foreign governments it has identified as supporters of acts of international terrorism (Iran, Cuba, and Syria), nuclear arms proliferators (Iran, North Korea, Syria), or egregious violators of

¹⁹ Written by Ian F. Fergusson, Specialist in International Trade and Finance, 707-4997.

²⁰ Written by Dianne E. Rennack, Specialist in Foreign Policy Legislation, 707-7608.

international human rights standards (Burma, Cuba, Iran, North Korea). If the 112th Congress takes up even a fraction of the proposals introduced in the 111th Congress involving economic sanctions, the President and the Departments of State, Commerce, and Treasury—those agencies that implement and administer the bulk of sanctions regimes—may find the role of Congress in determining the use of sanctions also robust.

The 111th Congress completed and enacted the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, but some members have expressed concern that the executive branch is not taking full advantage of flexibility the act provides in its implementation. The 112th Congress may revisit this legislation. Some unfinished initiatives of the 111th Congress that focused on particular countries—Belarus, Brazil, Burma, Cuba, Eritrea, Guinea, Haiti, Pakistan, Saudi Arabia, the United Arab Emirates, Venezuela, and Vietnam—might be rejuvenated, given recent events, disclosure of new information in leaked diplomatic documents, and the shift in political power, particularly in the House of Representatives. The 111th Congress expressed broader concerns, too, in the conduct of U.S. foreign policy—identifying supporters of terrorists, proliferation, regional stability, human rights—that may be further pursued in the 112th Congress through the proposed increased use of economic sanctions.

Import Policies²¹

U.S. policies affecting imports tend to be shaped by a mixture of economic principles, political considerations, and foreign policy interests. The case for maintaining a relatively open market for the purchase of goods and services rests on the view that it yields substantial economic benefits (lower prices, more consumer choice, and increased competition). Decisions to deviate from that rationale are also sanctioned by international trade rules that provide specific groups that are injured by certain kinds of both “fair” and “unfair” competition with recourse to petition the government for temporary protection. Additionally, efforts to forge closer economic and political ties with specific regions and countries may also lead to more open or less restrictive policies vis-à-vis the extension of preferential access to the U.S. market.

Congressional actions in the 112th Congress may reflect the interaction of these basic forces in the following six categories: (1) trade remedies; (2) trade preferences; (3) border security and trade facilitation; (4) miscellaneous tariff bills; (5) NAFTA trucking provisions; and (6) trade adjustment assistance.

Trade Remedies²²

The United States and its trading partners use laws known as trade remedies to mitigate the injury (or threat thereof) of various trade practices to domestic industries and workers. The three most frequently applied U.S. trade remedies are *antidumping* (AD, provides relief from injurious imports sold at less than fair market value), *countervailing duty* (CVD, provides temporary relief from injurious imports subsidized by a foreign government or public entity), and *safeguards* (provides relief from import surges of fairly traded goods). These laws are enforced primarily through the administrative procedures of two U.S. government agencies: the Department of Commerce (DOC) and the International Trade Commission (ITC). In AD and CVD cases, the

²¹ Written by Raymond J. Ahearn, Specialist in International Trade and Finance, 707-7629.

²² Written by Vivian C. Jones, Specialist in International Trade and Finance, 707-7823.

remedy is an additional duty assessed to offset the calculated amount of dumping or subsidy. In safeguard cases that are determined by the President, an import quota or a tariff may be assessed.

One issue that may emerge in the 112th Congress relates to the DOC methodology of disregarding non-dumped sales when calculating the amount of antidumping duties (“zeroing”). This practice has been the subject of several WTO disputes, and Congress may consider legislation aimed at bringing the U.S. practice in line with WTO panel rulings. This is controversial for some in Congress who support its continued use. Another policy issue relates to the under-collection of AD and CV duties, which continues to be a priority trade issue (PTI) for U.S. Customs and Border Protection (CBP). Legislation could be reintroduced in the 112th Congress seeking to prevent importers from circumventing these duties. Third, in the 2010 Consolidated Appropriations Act (P.L. 111-117), Congress directed the DOC to conduct an analysis of prospective versus retrospective duty collections. This report, completed in November 2010, could lead to legislative proposals to revise duty collection methods. Fourth, legislative proposals seeking to direct administrative officials to treat currency misalignment, under certain circumstances, as a subsidy under U.S. countervailing duty law, may be reintroduced in the 112th Congress.

Trade Preferences²³

Since 1974, Congress has created five trade preference programs designed to foster economic growth, reform, and development in poorer countries. These preferences are the Generalized System of Preferences (GSP, applies to all eligible developing countries); the Andean Trade Preference Act (ATPA); the Caribbean Basin Economic Recovery Act (CBERA); the Caribbean Trade Partnership Act (CBTPA); the African Growth and Opportunity Act (AGOA); and the Haitian Opportunity through Partnership Encouragement (HOPE) Act. These programs give temporary, non-reciprocal, duty-free U.S. market access to select exports of eligible countries. Congress authorizes and conducts regular oversight of these programs, and has revised them through legislation, and may continue to do so in the 112th Congress.

The 111th Congress approved extensions of the GSP and ATPA programs until December 31, 2010, and of the CBTPA through September 2020. In the aftermath of the Haitian earthquake, Congress also provided more flexible and generous tariff preferences for Haiti and extended the preferences through September 2020.

On December 15, 2010, the House approved H.R. 6517, the Omnibus Trade Act of 2010, which sought to extend the GSP and ATPA programs through June 30, 2012. On December 22, 2010, the Senate passed an amendment in the nature of a substitute to of H.R. 6517 by unanimous consent that included a six-week extension of ATPA through February 12, 2011, but did not renew GSP. The amended version of H.R. 6517 was passed by the House without objection on the same date and signed by the President on December 29, 2010 (P.L. 111-344).²⁴ Longer-term renewal of these programs may continue to be a legislative issue for the 112th Congress. In addition, Congress may consider legislative action on a broader revision of preference programs based on oversight hearings held in both the House and the Senate during the previous two Congresses.

²³ Written by Vivian C. Jones, Specialist in International Trade and Finance, 707-7823.

²⁴ Signed by the President on December 29, 2010.

Border Security and Trade Facilitation²⁵

Trade facilitation aims to improve the efficiency of international trade by harmonizing and streamlining customs procedures, such as duplicative documentation requirements, customs processing delays, and non-transparent or unequally enforced importation rules and requirements. Efforts to streamline these procedures as part of the WTO Doha Round are supported by many WTO members; however, differences exist on the scope and level of increased obligations reforms should involve. If a trade facilitation agreement is reached as part of the Doha negotiations, the 112th Congress could consider additional trade facilitation obligations as part of an overall WTO package.

In its oversight role, another issue for the 112th Congress may be the U.S. Customs and Border Protection's (CBP's) effort to enhance cargo security while expediting the processing of products and transportation at U.S. ports of entry. The Implementing Recommendations of the 9/11 Commission Act of 2007 as passed by Congress (P.L. 110-53) included a statutory mandate to scan all U.S. maritime cargo with non-intrusive inspection equipment at overseas ports of loading by July 2012.²⁶ In a House report (H.Rept. 111-157 on H.R. 2892), appropriators recently recognized, however, that this goal is not feasible, "and even if it were, would come at an unacceptably high cost monetarily and in the displacement of other efforts." To ensure the security of water-borne cargo, CBP employs a multi-layered risk-based strategy including the Secure Freight Initiative (SFI), which prescreens and identifies suspicious cargo, and the Container Security Initiative (CSI), a partnership with foreign authorities to physically examine high-risk cargo while still at foreign ports. The Customs-Trade Partnership Against Terrorism (C-TPAT) is a partnership between importers and CBP that further ensures supply chain security.

"Buy American"²⁷

In the 111th Congress, so-called "Buy American provisions" were inserted into several pieces of legislation, most notably the economic stimulus package, officially known as the American Recovery and Reinvestment Act (ARRA) (P.L. 111-5), which required that iron, steel, and manufactured goods used in the construction of public works projects funded by the act be made in the United States. This provision was widely criticized by U.S. trading partners, based on the fear that the act, if not inconsistent with U.S. international trade obligations under the plurilateral WTO Government Procurement Agreement (GPA), might encourage a cycle of "buy national" measures by other nations. Some industries, particularly those firms that comprise part of an integrated supply chain, were reportedly hard-hit by the Buy American provisions. Bilateral negotiations resulted in an agreement, signed in February 2010, to allow selective Canadian participation in the U.S. stimulus projects in return for Canadian provincial participation in the GPA, which would open certain local procurement opportunities in Canada to U.S. bidders. In addition, legislation was introduced in the 111th Congress to amend the definition of U.S. products, to remove certain exemptions and waivers from the act's application, and to add certain bid calculations and criteria. Similar legislation may be considered during the 112th Congress. Some members may also seek to reconcile the desire to insure that tax dollars are used to boost domestic employment through Buy American provisions with the aspirations of U.S. companies

²⁵ Written by Vivian C. Jones, Specialist in International Trade and Finance, 707-7823.

²⁶ P.L. 110-53, sec. 1701. This mandate may be postponed for a certain port or ports in two-year increments by the Secretary of Homeland Security if certain conditions are met.

²⁷ Written by Ian F. Fergusson, Specialist in International Trade and Finance, 707-4997.

to seek greater access to significant government procurement opportunities abroad through expansion of the GPA to other countries, including China.

Miscellaneous Tariff Bill (MTB)²⁸

Importers often request suspension of tariffs on chemicals, raw materials, or other non-domestically made components used as inputs in the manufacturing process. The rationale for these requests is that they help domestic producers of manufactured goods reduce costs, thus making their products more competitive, and subsequently passing on savings to the consumer. The most recent MTB, the United States Manufacturing Enhancement Act of 2010 (P.L. 111-227), was enacted on August 11, 2010.

In the 111th Congress, the House-passed version of H.R. 6517 (December 15, 2010) sought to provide duty-free access to an additional 290 products. The Senate-passed amendment to H.R. 6517 (which was subsequently passed by the House) did not contain the duty suspension provisions (P.L. 111-344). Legislation may emerge in the 112th Congress to pass these and other duty suspensions, as well as on possible procedural changes to the duty suspension vetting process in order to facilitate their consideration.

NAFTA Trucking²⁹

Under the North American Free Trade Agreement (NAFTA), which has been in effect since January 1994, the United States agreed to give Mexican commercial trucks full access throughout the United States by 2000. The United States did not implement these provisions, however, due to concerns about the safety of Mexican commercial trucks. Mexico filed a dispute and, in 2001, a NAFTA dispute resolution panel supported Mexico's position. The two countries cooperated on resolving the issue through the implementation of a pilot trucking program that temporarily allowed a limited number of Mexican trucks into the United States. However, the 111th Congress terminated the program and, in 2009, the Mexican government began imposing retaliatory tariffs on 89 U.S. products with a value of \$2.4 billion in exports to Mexico. In August 2010, Mexico revised the list of retaliatory tariffs by taking some products off the list and adding 26 new products for a total of 99 U.S. products with a value of \$2.5 billion. Mexico's intention was to put more pressure on the United States to implement the NAFTA trucking provisions. In January 2011, the Obama Administration took a step forward to resolve the issue by presenting an "initial concept document" to Congress and the Mexican government on a new long-haul trucking program with numerous safety inspection requirements.³⁰ The Mexican government responded positively to the initiative and stated that it would not continue rotating the list of retaliatory tariffs but also stated that it would keep the current tariffs in place until it had more time to review the U.S. proposal.

The 112th Congress may consider legislation to implement the NAFTA trucking provisions. Numerous members of Congress continue to oppose the implementation of the trucking provisions because they are concerned about the safety of Mexican trucks in the United States,

²⁸ Written by Vivian C. Jones, Specialist in International Trade and Finance, 707-7823.

²⁹ Written by M. Angeles Villarreal, Specialist in International Trade and Finance, 707-0321.

³⁰ Rosella Brevetti, "DOT's LaHood Presents 'Concept' Paper on Resolving NAFTA Mexico Truck Dispute," *International Trade Daily*, January 7, 2011.

while others support a resolution to the issue. They argue that Mexico's retaliatory tariffs are hurting local U.S. industries and affecting U.S. jobs, especially in the agricultural sectors. They also argue that the United States is in violation of NAFTA by not implementing these provisions and that Mexican trucks are required to meet U.S. safety standards.

Trade Adjustment Assistance³¹

Economists generally acknowledge that trade liberalization enhances the economic welfare of all trading partners, but with stiffer global competition, certain firms and workers may face difficult adjustment problems. Since 1974, Congress has responded to these adjustment costs by authorizing trade adjustment assistance (TAA) programs. These programs currently assist trade-impacted workers, firms, farmers, and communities. Debate in the 111th Congress over TAA reauthorization led to a February 5, 2009, bipartisan agreement to expand and extend existing programs for workers (including service sector workers), firms, and farmers, and to add a fourth program for communities. The agreement became part of the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

Current TAA program authorizations were in place until December 31, 2010. The House-approved version of H.R. 6517 sought to extend TAA programs until July 1, 2012. The Senate-passed amendment (which was subsequently passed by the House without objection) extended TAA programs for an additional six weeks, through February 12, 2011 (P.L. 111-344). The 112th Congress may consider a longer-term TAA extension.

International Financial Institutions³²

The International Financial Institutions (IFIs) include the International Monetary Fund (IMF), whose main task is ensuring international monetary and financial stability, and several multilateral development banks (MDBs), including the World Bank and four regional development banks—the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. The United States is a member and major contributor to these institutions.

These institutions have been at the forefront of the global response to the recent worldwide economic crisis, dramatically increasing their lending during 2008 and 2009 to help developing countries absorb the impact of reduced economic growth and its impacts on trade and financial flows. As lending increased, the IMF and the MDBs sought new donor resources, and world leaders committed to ensure sufficient resources for the MDBs to support their macroeconomic stability and development mandates, and maintain their capacity to support G-20 priorities, including food security, fragile states, climate change, and private-sector-led sector growth.

Requests to increase U.S. contributions to the IFIs may dominate discussions about these institutions during the 112th Congress. While the executive branch manages the day-to-day U.S. relationship at the IMF and the MDBs, Congress decides the overall terms of U.S. involvement by setting the level of U.S. contributions, and through legislation, it may direct how the U.S. shall vote on policies and projects.

³¹ Written by Vivian C. Jones, Specialist in International Trade and Finance, 707-7823.

³² Written by Martin A. Weiss, Specialist in International Trade and Finance, 707-5407

International Monetary Fund

During the 111th Congress, attention centered on increasing IMF resources in light of elevated levels of IMF lending since the onset of the global economic crisis in 2008. Amid growing concern about the sustainability of fiscal deficits in several Eurozone economies, the ability of the IMF to respond capably to sovereign debt crises may continue during the 112th Congress. Two countries, Ireland and Greece, are currently receiving IMF-budget support, and some analysts expect additional countries to seek funding in 2011.

On November 11-12, 2010, IMF member states agreed on a package of reforms, the core of which is a doubling of IMF quota to about \$755 billion. In addition, the reforms call for a significant shift of voting power to dynamic emerging market economies. If the reforms are implemented, the 10 largest members of the IMF would consist of the United States, Japan, the four largest European economies (France, Germany, Italy, and the United Kingdom), Brazil, China, India, and Russia.

The quota increase may come via a repositioning of existing IMF resources, namely the New Arrangements to Borrow (NAB), a multilateral borrowing arrangement intended to temporarily supplement available quota resources and borrowing that was recently increased. Following a year of negotiations on the design and operations of the expanded NAB, the IMF Executive Board adopted a proposal on April 12, 2010, by which the NAB would be expanded to about \$550 billion, with the addition of 13 new participating countries. The U.S. commitment to the expanded NAB is \$100 billion. To meet the U.S. \$100 billion commitment to the expanded NAB, as well as an \$8 billion increase in the U.S. quota at the IMF, Congress appropriated \$5 billion in the Supplemental Appropriations Act, 2009 (P.L. 111-32).

As part of the new quota increase to be completed by September 2012, member countries' commitments to the NAB are expected to be proportionally reduced to fund the increase in their quota. Analysts expect that for the United States to participate in the quota increase, Congress would have to authorize a shift of about \$65 billion from the funds appropriated for increased U.S. IMF participation in the 2009 Supplemental to the new quota arrangement.

Multilateral Development Banks

Following several years of elevated lending, the Obama Administration and other governments agreed over the past two years to substantial general capital increases (GCIs) at the MDBs. Collectively, these capital increases are worth over \$338 billion. The 112th Congress may decide to authorize full U.S. participation in the GCIs, which would bring the total U.S. share of new subscribed capital to \$56.88 billion. Of this amount, \$217.3 billion would need to be appropriated for U.S. paid-in capital. The Administration has requested that contributions to the Asian Development Bank GCI be included in the FY2011 budget. It is expected that requests for the remaining institutions will be included in the FY2012 budget.

Many view U.S. participation in MDB capital increases as important, since the United States is the largest shareholder among the MDBs, and U.S. funding commitments often spur additional contributions from other member countries. The present situation, with all of the MDBs requesting capital increases for their main windows, is a potential opportunity for the Administration and Congress to evaluate U.S. participation in the institutions, debate whether the MDBs are using their existing capital effectively, and decide whether to participate in any or all of the capital increases and, if so, whether to seek additional reforms. Critics of increased MDB

funding question MDB effectiveness and the need for additional funding given the increased availability of other sources of financing for development.

The Obama Administration has expressed support for capital increases at the MDBs, but cautioned that any such increase should be tied to policy reforms. The Administration's broad MDB reform objectives are to improve transparency, accountability, and governance; better align management performance and incentives with improved development outcomes; and more clearly delineate the division of labor between the World Bank and the regional development banks.

U.S. participation in an MDB GCI requires both congressional authorization and appropriations. The Obama Administration has requested that contributions to the AsDB GCI be included in the FY2011 budget, since it was approved prior to the submission of the FY2011 request. On June 30, 2010, the House State-Foreign Operations Appropriations Subcommittee marked up and approved, by voice vote, a draft FY2011 funding bill that provided no funding for the AsDB GCI. On July 27, the Senate Appropriations Committee marked up and approved a FY2011 State-Foreign Operations funding bill, S. 3676, that would fully fund the Administration's request, recommending \$106.57 million for paid-in capital and \$2.56 billion for callable capital (one-fifth of the total GCI request). It is expected that requests for the remaining institutions will be included in the FY2012 budget.

Outlook³³

Congress may face a vote on the proposed KORUS FTA in 2011. The outcome of such a vote could have important effects on the broader engagement of the Obama Administration and Congress on international trade and finance issues, including the following:

- implementing legislation for the proposed Colombia and Panama FTAs;
- the future direction of the U.S. free trade agreements program;
- efforts to bring the Doha Round to a close;
- U.S. leadership in the Trans-Pacific Partnership negotiations;
- congressional consideration of the renewal of Trade Promotion Authority; and
- monitoring of Europe's sovereign debt crisis.

Any trade debate in the 112th Congress on the KORUS FTA and other trade agreements would likely revolve around the perceived economic effects of the agreement(s) on U.S. industries and jobs, and the role that trade agreements (bilateral, regional, and multilateral) and other policies may play in making the U.S. economy more competitive in an increasingly integrated global economy. With U.S. companies invested around the globe and production specialized across national borders, assessments of the net costs and benefits of these agreements have become more complicated. The fact that many of these agreements contain provisions that reach into domestic policies such as labor, environmental, regulatory, and intellectual property rights also makes simple characterization of these agreements (such as "free trade versus fair trade") difficult and perhaps misleading.

³³ Written by Raymond J. Ahearn, Specialist in International Trade and Finance, 707-7629.

Proponents are likely to argue that trade agreements will improve access to foreign markets and increase exports and, thus, are job-creating and growth enhancing. The fact that U.S. trade partners in recent years have negotiated and implemented far more FTAs than the United States may also factor into the debate, as well as the notion that many of the U.S. trade agreements solidify U.S. leadership and influence in key regions of the world. Some critics are likely to assert that the agreements favor corporations over workers, weaken import-sensitive U.S. manufacturing industries, place downward pressure on wages and labor standards, outsource jobs, and undermine U.S. sovereignty.

The outlook for congressional action on trade and finance issues could also be affected by domestic and foreign economic conditions. Domestically, receptivity to trade liberalizing agreements tends to be greater when the economy is expanding and unemployment is decreasing. The U.S. economy continues to struggle with slow growth and high unemployment, which may make it difficult to enact such measures.

Internationally, the climate for trade legislation could be enhanced by vibrant economic growth, particularly among emerging economies, a competitive (weaker) dollar, and supporting policies from trade surplus countries (China and Germany in particular) that promote an increase in their domestic demand in those economies and a decrease in their net exports. One of the underlying causes of the 2008 global recession was the presence of highly skewed trade imbalances. Therefore, policies that correct the imbalances (e.g., more consumption in surplus countries and higher savings in the United States—the largest deficit country) and provide more balanced growth are seen by many as important for both global economic recovery and an avoidance of an outbreak of protectionism.

In sum, as U.S. interaction with the world economy increasingly influences congressional deliberations on international trade and finance issues, congressional actions, in turn, may play an important role in affecting the growth of the U.S. economy and the creation of new jobs. Decisions of the 112th Congress on international trade and finance issues may also have important consequences for the country's role in the world economy and in global political dynamics more generally.

Relevant CRS Reports

Trade Agreements and Negotiations

CRS Report RL34330, *The Proposed U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper

CRS Report RL34470, *The Proposed U.S.-Colombia Free Trade Agreement*, by M. Angeles Villarreal

CRS Report RL34759, *Proposed U.S.-Colombia Free Trade Agreement: Labor Issues*, by Mary Jane Bolle

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck

- CRS Report R40622, *Agriculture in Pending U.S. Free Trade Agreements with Colombia, Panama, and South Korea*, by Remy Jurenas
- CRS Report R41534, *The EU-South Korea Free Trade Agreement and Its Implications for the United States*, by William H. Cooper et al.
- CRS Report R41389, *Pending U.S. and EU Free Trade Agreements with South Korea: Possible Implications for Automobile and Other Manufacturing Industries*, by Michaela D. Platzer
- CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper
- CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by J. F. Hornbeck and William H. Cooper
- CRS Report RS21004, *Trade Promotion Authority and Fast-Track Negotiating Authority for Trade Agreements: Major Votes*, by Carolyn C. Smith
- CRS Report R41544, *Trade Promotion Authority and the Korea Free Trade Agreement*, by Emily C. Barbour
- CRS Report 97-896, *Why Certain Trade Agreements Are Approved as Congressional-Executive Agreements Rather Than as Treaties*, by Jeanne J. Grimmett
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