International Trade and Finance: Key Policy Issues for the 114th Congress

Mary A. Irace, Coordinator
Section Research Manager

Brock R. Williams, Coordinator
Analyst in International Trade and Finance

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Summary

The U.S. Constitution grants authority over the regulation of foreign commerce to Congress. It exercises this authority in numerous ways, including through oversight of trade policy and the consideration of legislation to approve trade agreements and authorize trade programs. Policy issues cover such areas as: U.S. trade negotiations; U.S. trade and economic relations with regions and countries; international trade institutions; tariff and nontariff barriers; worker dislocation from trade liberalization; trade remedy laws; import and export policies; international investment; economic sanctions; and trade policy functions of the federal government. Congress also has an important role in international finance. It has the authority over U.S. financial commitments to international financial institutions and oversight responsibilities for trade- and finance-related agencies of the U.S. Government.

The 113th Congress reauthorized the Export-Import Bank through June 30, 2015, enacted or maintained economic sanctions against Russia and Iran, continued its oversight of the Administration’s ongoing trade negotiations, and funded Trade Adjustment Assistance (TAA) programs, among other action. Members also introduced a range of legislation on international trade and finance issues, including bicameral legislation to renew Trade Promotion Authority (TPA). The 114th Congress may revisit these issues and address new ones. Among the more potentially prominent issues are:

- Possible renewal of TPA, providing expedited legislative procedures to consider trade agreement implementing bills, setting forth trade negotiating objectives, and establishing congressional-executive notification and consultation mechanisms on trade negotiations;
- Ongoing negotiations for comprehensive reciprocal free trade agreements with major trading partners and regions, including a Trans-Pacific Partnership (TPP) with the United States and 11 countries in the Asia-Pacific, and a Transatlantic Trade and Investment Partnership (T-TIP) Agreement between the United States and the European Union (EU);
- Potential reauthorization of the Export-Import Bank beyond June 30, 2015;
- Possible Trade Adjustment Assistance (TAA) program reauthorization;
- Potential reauthorization of trade preference programs, including the African Growth and Opportunity Act (AGOA) and the Generalized System of Preferences (GSP), as well as reauthorization of U.S. Customs and Border Protection (CBP) and possible action on a miscellaneous tariff bill (MTB);
- U.S.-China trade relations, including investment issues, intellectual property rights protection, currency issues, and market access liberalization;
- International finance and investment issues, including remaining implications of the Eurozone debt crisis such as persistent slow economic growth, oversight and reform of international financial institutions, and negotiations to conclude new bilateral investment treaties (BITs);
- Oversight of the World Trade Organization (WTO) Doha Round negotiations, including the completed Trade Facilitation Agreement, and separate new and ongoing plurilateral trade liberalization negotiations (e.g., information technology; services; and environmental goods); and
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- Review of the President’s export control reform initiative and possible renewal of the Export Control Act (EAA), and review of recent sanctions on Russia and other countries.

A list of CRS reports covering these issues and containing relevant citations is provided at the end of the report.
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Introduction

The 114th Congress, in exercising both its legislative and oversight responsibilities, faces numerous international trade and finance policy issues. These issues are important to Congress because they can affect the health of the U.S. economy, the success of U.S. businesses and their workers, and the standard of living of Americans. They also have implications for U.S. foreign policy interests.

International trade and finance issues are complex and at times controversial, and developments in the global economy often make policy deliberation more challenging. The world continues to recover unevenly from the 2008 global financial crisis. Higher sustained rates of economic growth remain elusive in many developed economies, particularly in Japan and parts of Europe. Rates of growth are also slowing in China and other emerging economies. At the same time, the major decrease in oil prices is creating greater volatility in currency markets and economies, such as Russia, that rely on exporting oil. Shifts in international capital flows arising from changes in oil prices could add to uncertainties in global financial markets and complicate the efforts of some major international banks to rebuild their capital bases. Lower oil prices are expected to benefit consumers and oil-consuming industries, potentially boosting economic growth in oil-importing economies.

The U.S. economy is a relative bright spot in terms of the global economic outlook, particularly among advanced economies. Although it is still recovering from its worst recession in eight decades, overall conditions have improved with unemployment down to 5.8% in 2014 from a high of 10% in 2009, and GDP growth is projected to be above 2% in 2014 for the third straight year. Greater domestic energy production has eased pressure on the U.S. trade balance as crude oil imports have fallen and increased the competitiveness of U.S. industry as energy costs have declined. This positions the United States to become a potentially major driver of global growth.

Global economic imbalances and debt levels continue to influence international economic policies and discussions, but the dynamics of global imbalances (savings, investment, and trade balances) have changed somewhat in recent years. Since their peak in 2006, current account imbalances, as a share of world gross domestic product (GDP), have fallen significantly, particularly the deficit in the United States and the surpluses in China and Japan. Questions over the permanence of these recent shifts and the persistent imbalances in some countries prompt continued calls for “global rebalancing” through national and foreign responses. For the United States, this would involve increased saving (less spending and less borrowing from abroad) relative to investment that would produce a rise in net exports (reduction in trade deficit). 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.

International trade and investment flows continue to evolve in significant ways, most notably through the growing integration of markets and production, and supply chain networks brought about by advances in technology, communications, transportation, and lower barriers to trade. These transformative changes in the global economy have led to large decreases in transaction costs that have spurred significant growth in trade, particularly of intermediate goods, which now account for over 60% of the world’s commercial exchange. Domestically, jobs are supported by U.S. exports to U.S. foreign affiliates and production abroad, as well as foreign firms operating in the United States. At the same time, these complex production networks have raised new “behind
the border” trade barriers that are the subject of current trade negotiations. These developments further complicate trade and employment policy debates, and raise other questions such as what constitutes an “American-made” product, who gains from trade, and how will innovation and production strategies continue to change the economic landscape.

Another transformative change in the global economy is the growing role of China and other rising economic powers. These and other developments present significant opportunities and policy challenges for the United States as it seeks to achieve more open markets, transparent and rules-based trade, and financial and monetary stability in the global economy. They also have significant implications with respect to the role and evolution of international trade and financial institutions and governance, including new mechanisms such as the Group of 20 (G-20) economies as a major forum for international economic cooperation.

On U.S. trade policy issues, the 114th Congress may exercise its oversight responsibilities and may consider legislation related to numerous international trade issues, including renewal of U.S. trade promotion authority (TPA), formerly known as fast track. It may also debate and consider legislation to implement future “mega-regional” free trade agreements (FTAs), including the proposed Trans-Pacific Partnership (TPP) and the proposed Transatlantic Trade and Investment Partnership (T-TIP). These potential trade agreements would cover a substantial portion of world trade and economic activity, and address new issues, such as cross-border data flows, state-owned enterprises, and global value chains. The United States is also part of ongoing multilateral trade negotiations in the World Trade Organization (WTO) and is negotiating plurilaterally with “like-minded” economies to further liberalize trade in services, information technology, and environmental goods. Additionally, it is negotiating bilateral investment treaties (BITs) with China and India to provide nondiscriminatory treatment and remove barriers to investment, among other provisions. As treaties, BITs would require ratification by the Senate for approval, whereas most trade agreements would require implementing legislation passed by both houses of Congress.

On international finance issues, the 114th Congress has a range of policy and institutional issues of potential interest. These include foreign exchange rate policies and continued international policy efforts to prevent future financial crises. Attention may also turn to the role and effectiveness of the International Monetary Fund (IMF) and multilateral development banks, such as the World Bank. Congress may consider possible IMF reforms that would impact U.S. financial commitments to the institution and align its governance better with the increased role of emerging economies in the global economy. Additionally, China and other emerging economies have launched a new development bank (the “BRICS Bank”) and China is establishing a new regional infrastructure bank, which raise a number of issues for Congress, including these banks’ relationships to existing multilateral and regional institutions.

While global economic integration has increased trade and economic growth, it also has exposed U.S. firms and workers to greater competition from lower-cost and more efficient producers in certain sectors and increasingly, from state-owned enterprises (SOEs) and other firms that receive government support. Globalization and the larger volume of imports of goods and services, therefore, may force some U.S. firms to make costly adjustments to remain competitive. In some cases this may take the form of worker dislocation and shifts to production abroad, and may raise concerns in Congress over distributional issues of global production and trade, how to respond to unfair foreign trade practices, and the scope and effectiveness of U.S. worker training and trade adjustment assistance programs.
In sum, U.S. costs and benefits linked to an increasingly interconnected global economy are multifaceted. The trade policy debate extends beyond free trade versus protectionism, to also involve domestic and foreign macroeconomic policies, the participation of foreign states in markets, the competitiveness of U.S. firms and workers, implications of value-chain and cross-country production, and the financial stability of the international economy. For the United States, an overarching goal is to ensure a high standard of living by remaining innovative, productive, and responsive to international competition, while safeguarding those stakeholders who otherwise may be left behind in a fast-changing global economy or injured by noncompetitive trade practices, which may suggest a supporting role for complementary domestic policies.

Congress is in a unique position to address these issues, particularly given its constitutional mandate for legislating and overseeing international trade and financial policy. In addition to 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 that the 114th Congress may address. A list of CRS reports covering in detail each of the issues addressed in this report and containing relevant citations is provided at the end of the report.

The Role of Congress in International Trade and Finance

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 gained from and 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. tariff rates to an all-time high level, led U.S. trading partners to respond in kind. In response, world trade declined rapidly, exacerbating the impact of the Great Depression. Since passage of this tariff act, Congress has delegated certain trade authority to the executive branch. First, Congress enacted the Reciprocal Trade Agreements Act of 1934, which authorized the President to enter into reciprocal agreements to reduce tariffs within congressionally preapproved levels, and to implement the new tariffs by proclamation without additional legislation. Congress has renewed and amended the 1934 Act four times since 1974, which includes fast-track trade negotiating authority, known as trade promotion authority (TPA) since 2002.

Congress also exercises trade policy authority through its oversight responsibilities and the enactment of laws authorizing trade programs and governing trade policy generally. These include such areas as U.S. trade agreement negotiations; tariffs and nontariff barriers; trade remedy laws; import and export policies; economic sanctions; and the trade policy functions of
the federal government. In addition, Congress oversees the implementation of trade policies, programs, and agreements.

Congress has an important role in international investment and finance as well. It has authority over bilateral investment treaties (BITs) and the level of U.S. financial commitments to the multilateral development banks (MDBs), including the World Bank, and to the International Monetary Fund (IMF). It also authorizes the activities of such agencies as the Export-Import Bank (Ex-Im Bank) and the Overseas Private Investment Corporation (OPIC). Congress has oversight responsibilities over these institutions, as well as the Federal Reserve and the Treasury Department, whose activities affect international capital flows. Congress also closely monitors developments in international financial markets that could affect the U.S. economy, such as the Eurozone sovereign debt crisis.

Policy Issues for Congress

The 114th Congress, as discussed above, may consider a number of significant policy issues on international trade and finance. They include renewal of trade promotion authority (TPA); implementation of existing and renewal of potential trade agreements including a Trans-Pacific Partnership (TPP), a Transatlantic Trade and Investment Partnership (T-TIP), a Trade in Services Agreement (TISA), and also expanded agreements in information technology products and trade facilitation under the WTO as well as newly launched negotiations on environmental goods and services; U.S.-China trade relations; international finance issues; review of the U.S. export control regime; reauthorization of the Export-Import Bank; and reauthorization of U.S. Customs and Border Protection (CBP) and expiring trade preference programs.

Congress confronts these issues against the backdrop of a rapidly globalizing economy and the growing importance of emerging economies that have increased the role of global supply or value production chains, state-owned enterprises, and cross-border data flows, among other factors. These and other issues are discussed in more depth below.

Trade Promotion Authority (TPA)1

The 114th Congress is expected to debate the possible renewal of TPA. TPA 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. These obligations include adhering to congressionally defined U.S. trade policy negotiating objectives, as well as congressional notification and consultation requirements before, during, and after the completion of the negotiation process. The primary 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 by ensuring that the trade agreements will not be changed once concluded. Since first enacted in the Trade Act of 1974, TPA has been renewed four times (1979, 1984, 1988, 2002),

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1 Written by Ian F. Fergusson, Specialist in International Trade and Finance, x7-4997. See CRS Report RL33743, Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy, by Ian F. Fergusson; CRS Report R43491, Trade Promotion Authority (TPA): Frequently Asked Questions, by Ian F. Fergusson and Richard S. Beth; and CRS In Focus IF00002, Trade Promotion Authority (TPA) (In Focus), by Ian F. Fergusson.
with the latest grant of authority expiring on July 1, 2007. Legislation to renew TPA, the Bipartisan Congressional Trade Priorities Act (H.R. 3830; S. 1900), was introduced but not considered in the second session of the 113th Congress.

In light of TPA’s special provisions governing trade agreement implementing bills, many consider its renewal necessary to approve and implement new trade agreements. Others question whether TPA is necessary to pass trade implementing bills and note that it is not a prerequisite for initiating or concluding trade agreement negotiations. Some experts argue that TPA would have to be renewed if the United States is to be a credible negotiator in concluding proposed trade agreements such as the TPP, T-TIP, Trade in Services Agreement (TISA), future WTO agreements, and other future trade agreements. Although the Obama Administration has been notifying and consulting Congress on these negotiations per previous TPA requirements, Congress has not formally expressed its views in the form of new or updated legislative negotiating objectives for trade agreements, which have been an important part of previous TPA/fast track authorities.

Trade Agreements and Negotiations

The United States has historically led in establishing multinational agreements under the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), to reduce and eliminate barriers to trade and create nondiscriminatory rules and principles to govern trade. The United States also has worked to further advance these goals in plurilateral and bilateral contexts and has concluded 14 free trade agreements (FTAs) with 20 countries since 1985, when the first U.S. bilateral free trade agreement was concluded with Israel. Monitoring the implementation of these agreements, particularly those most recently enacted, such as the U.S.-South Korea FTA (KORUS), remains an ongoing U.S. trade policy interest. In addition, several trade negotiations are currently underway with important regions and in the WTO. Among these are the negotiations with the TPP countries—now 12 countries and possibly more—to create a comprehensive and high-standard regional FTA in the Asia-Pacific region. In addition, the United States has entered into similar negotiations with the European Union on the proposed T-TIP. The United States is also engaged in the plurilateral TISA and Information Technology Agreement (ITA) negotiations on services and information technology tariffs, respectively, as well as new negotiations on environmental goods tariff liberalization. Congress may also wish to examine the agreements reached during the December 2013 WTO Ministerial in Bali, Indonesia, including a Trade Facilitation Agreement (TFA).

Trans-Pacific Partnership (TPP)\(^2\)

The TPP is a proposed comprehensive and high-standard free trade agreement (FTA) among 12 countries to liberalize trade and investment through enhanced rules and disciplines and greater market access. It may become a vehicle to advance a wider Asia-Pacific free trade area as well as a U.S. policy response to the rapidly increasing economic and strategic linkages among Asian-Pacific states. It is portrayed by the Administration as the key economic component of the

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“rebalance” to the Asia-Pacific. The TPP has slowly evolved from a more limited agreement among four countries concluded in 2006 into the current 12-country FTA negotiations, with the United States joining the negotiations in 2008. Japan, the most recent country to participate, joined the negotiations in 2013. The United States has existing FTAs with 6 of the 11 countries participating. The 114th Congress has a direct legislative interest in the progress and content of the negotiations, and would need to pass implementing legislation for a final TPP agreement to enter into force in U.S. law.

The TPP is potentially an important and strategic “mega-regional” trade agreement for the United States. Views on the agreement, however, vary widely. Proponents argue that the TPP has the opportunity to expand trade and investment opportunities with negotiating partners that make up 37% of total U.S. goods and services trade, and establish trade and investment disciplines on new issues such as supply chain management, state-owned enterprises (SOEs), regulatory coherence, and digital trade barriers, in a region of strategic economic and geopolitical importance. Opponents voice concerns over greater competition in import sensitive industries, and how the potential TPP agreement might impact U.S. sovereignty in establishing future U.S. regulations in areas such as health, food safety, and environment.

As a result of these varying views in the United States and among the 12 negotiating partners, certain aspects of the negotiations have proven controversial. These include select market access issues, such as on agriculture, and textiles and apparel, as well as the level of intellectual property protection, the enforcement of environmental and worker rights, the treatment of state-owned enterprises, investor-state dispute settlement, access to government procurement, and possible currency provisions. Bilateral market access talks with Japan, the largest U.S. trading partner in the TPP negotiations without an existing FTA with the United States, have proven particularly challenging, especially in the areas of autos and agricultural trade. Given the economic significance of both the United States and Japan among TPP members, resolution of these bilateral talks would likely advance the conclusion of the overall negotiations.

The TPP negotiations are reportedly nearing conclusion. As the negotiations themselves are confidential it is difficult to assess how many issues remain unresolved, but according to TPP Trade Ministers the end of the negotiations is now “in focus.” Remaining issues are likely also the most sensitive and their resolution may require high-level political decisions. Conclusion of the TPP negotiations may also be impacted by congressional consideration of TPA (see above), legislation which some Members of Congress view as necessary before TPP is concluded and then considered by Congress.

**Transatlantic Trade and Investment Partnership (T-TIP)**

T-TIP is a proposed comprehensive and high-standard FTA between the United States and European Union (EU), through which the two sides seek to enhance trade disciplines and market access by addressing remaining transatlantic barriers to trade and investment. The Obama

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3 Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance, x7-9253 and Vivian C. Jones, Specialist in International Trade and Finance, x7-7823. See CRS Report R43387, Transatlantic Trade and Investment Partnership (T-TIP) Negotiations, by Shayerah Ilias Akhtar and Vivian C. Jones; CRS Report R43158, Proposed Transatlantic Trade and Investment Partnership (T-TIP): In Brief, by Shayerah Ilias Akhtar and Vivian C. Jones; and CRS In Focus IF00005, Proposed Transatlantic Trade and Investment Partnership (T-TIP) (In Focus), by Shayerah Ilias Akhtar and Vivian C. Jones.
Administration notified Congress of its intent to negotiate T-TIP on March 20, 2013. Formal negotiations commenced in July 2013, with seven rounds held to date. U.S. and EU negotiators announced a goal of concluding T-TIP in two years. Given the complexity of issues involved, some question the likelihood of reaching this goal. Core components of the negotiations include reducing and eliminating tariffs; enhancing cooperation, convergence, and transparency in regulations and standards-setting processes; further opening government procurement markets; and strengthening and developing new rules in areas such as intellectual property rights, investment, digital trade, trade facilitation, labor and the environment, localization barriers to trade, and state-owned enterprises. Some potential rules could exceed existing U.S. FTA or WTO commitments. Certain T-TIP issues are active areas of debate, including regulatory cooperation, which is sensitive, in part, because of divergent U.S. and EU cultural preferences and values; treatment of geographical indications; inclusion of investor-state dispute settlement, complicated by differing views on its impact on government regulatory abilities; and facilitation of cross-border data flows and potential data privacy implications.

T-TIP is a potentially significant and strategic FTA for the United States. In 2013, the EU accounted for around one-fifth of total U.S. trade in goods and services, one-half of U.S. direct investment abroad, and some 60% of foreign direct investment in the United States. T-TIP also is a potentially globally significant FTA, as it involves the world’s two largest advanced economies, which combined represent almost half of global GDP. However, views on T-TIP vary broadly. Supporters see an opportunity to boost transatlantic economic growth and jobs by addressing costly trade barriers; strengthen the U.S.-EU bilateral relationship; support broader and deeper trade liberalization; and address challenges associated with third-country markets. Opponents are concerned about adverse effects on import sensitive sectors; the impact on U.S.-EU relations should negotiations stall; a focus on regional and bilateral FTAs detracting from multilateral trade liberalization; and potential infringement on U.S. and EU sovereignty, including the ability to regulate health, labor, and environmental interests. Both U.S. and EU officials continue to meet with representatives of NGOs, consumer groups, trade unions, professional organizations, and businesses to inform the public about the goals and progress of T-TIP negotiations.

Congress has a direct interest in the T-TIP negotiations, since it establishes overall U.S. trade negotiating objectives and would consider legislation to implement a final T-TIP agreement. Possible congressional consideration of renewal of TPA (see above), which expired in 2007, could affect T-TIP. As part of its oversight role, Congress could examine the impact of greater transatlantic trade liberalization on the U.S. economy and particular sectors; the role of a potential T-TIP in U.S.-EU relations; how T-TIP would compare with other FTAs currently being negotiated, such as the TPP and TISA; and whether T-TIP should be broadened to include other countries.

The WTO and WTO Doha Round

The World Trade Organization (WTO) is an international organization that administers the trade rules and agreements negotiated by 160 participating parties, and it serves as a forum for dispute settlement resolution and trade liberalization negotiations. The United States was a major force behind the establishment of the WTO on January 1, 1995, and the new rules and trade

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4 Written by Ian F. Fergusson, Specialist in International Trade and Finance, R7-4997. See CRS In Focus IF10002, The World Trade Organization at 20, by Ian F. Fergusson and CRS Report R43592, Agriculture in the WTO Bali Ministerial Agreement, by Randy Schneipf.
liberalization agreements 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 remained deadlocked for several years. However, WTO Members at the 9th Ministerial Conference held in Bali, Indonesia on December 3-7, 2013, agreed to a package of trade facilitation, agriculture, and development measures. Though modest in scope, it represented the first successful conclusion of a negotiation in the WTO’s nearly 20-year history. In July 2014, however, the protocols of implementation for the Trade Facilitation Agreement (TFA) were blocked by India over food security “peace clause” concerns (see below). In subsequent negotiations culminating in November 2014, the United States and India resolved their differences regarding the interpretation of the peace clause that could allow for the implementation of the TFA. The agreements reached at the WTO Bali Ministerial include the following:

- **Trade facilitation.** Members agreed to a package that would impose binding disciplines on issues concerning the process of trade: freedom of transit, fees and formalities associated with the import and export of goods, and transparency and publication of goods. These provisions are designed to reduce transaction costs and improve efficiencies, especially with regard to trade with and between developing countries. The accord places binding disciplines on developing countries to implement these reforms. While wealthy donor countries and international organizations have pledged funds to least-developed countries (LDCs) to implement these reforms through capacity building assistance, the agreement itself places no obligations on Member states to provide assistance.

- **Agriculture.** Members agreed to a compromise “peace clause” on so-called food security issues. This agreement would exempt food stockpiling programs, especially for developing countries, subject to certain transparency requirements, from dispute settlement until a permanent solution to the relationship between these programs and trade-distorting subsidy limitations in the WTO Agriculture Agreement is negotiated. Members also agreed to provisions concerning the administration of tariff-rate quotas (TRQ) and recommitted themselves to negotiate the parallel elimination of export subsidies.

- **Development Issues.** The Members agreed to a package of items to enhance trade with least-developed countries. The agreement contained: a commitment to develop simplified preferential rules-of-origin for LDCs; a “services waiver” to grant LDCs greater access to the services markets of developed countries; a commitment to negotiate duty-free, quota-free access to LDCs; and a commitment to improve market access for cotton from LDCs.

The Bali agreements also directed the WTO Secretariat to develop a clearly defined work program to complete the Doha Round. This task remains formidable. The negotiations have been characterized by persistent differences among the United States, the European Union, and advanced developing countries on major issues, such as agriculture, industrial tariffs and nontariff barriers, services, and trade remedies. While some have lauded the Bali accord as a vindication of the body’s negotiating function, the summer blockage on its implementation reminded WTO members of the fragile nature of consensus among 160 members. It remains to be seen whether the Bali accord has lasting momentum to propel agreement on the wider Doha Round agenda.
Work has continued on expanding the reach of current WTO agreements outside the scope of the Doha Round, including through plurilateral agreements or those that involve only a subset of WTO members. A group now composed of 46 developed and advanced developing countries are negotiating the Trade in Services Agreement (TISA, discussed below). The expansion of the scope of the WTO Government Procurement Agreement (GPA), negotiations for which were concluded in March 2012, entered into force on April 6, 2014. Several countries, including China, are in negotiations to accede to the GPA.

Negotiations to expand the product scope of the WTO’s plurilateral Information Technology Agreement (ITA) may be back on track after the United States and China reached an “understanding” in November 2014 on an expansion of China’s offer of greater tariff-free treatment of information technology goods. Originally concluded in 1996, talks for an ITA-II most recently resumed in 2012. The talks broke down in November 2013 after China’s previous offers were deemed insufficient by the United States and other signatories. How that understanding translates into a revised product list and the extent of tariff phase-out periods may determine whether the new ITA can be concluded in the near term.

In July 2014, the United States and 13 other countries launched negotiations within the WTO to liberalize trade in environmental goods and services—goods and services viewed as promoting sustainable development—through tariff elimination. The first stage of the talks are building on a list of 54 environmental goods produced by the APEC forum and are being conducted on an open plurilateral basis, meaning that all benefits achieved through negotiation would be extended on a most-favored-nation (MFN) basis to all members of the WTO. Thus, achieving a “critical mass” of participation by the producers of such goods—suggested to be 90%—is considered necessary to avoid the problem of free-riders. A second stage may consider the provision of environmental services.

Trade in International Services Agreement (TISA)<sup>5</sup>

The term “services” refers to an expanding range of economic activities, such as construction, retail and wholesale sales, e-commerce, financial services, professional services (such as accounting and legal services), logistics, transportation, tourism, and telecommunications. Services are a significant sector of the U.S. economy, accounting for almost 70% of U.S. gross domestic product (GDP) and for over 80% of U.S. civilian employment. They not only function as end-user products by themselves, but also act as the “lifeblood” of the rest of the economy with transportation services ensuring that goods reach customers and financial services providing financing for the manufacture of goods. Services have been an important priority in U.S. foreign trade and trade policy and of global trade in general.

Services present unique trade policy issues and challenges, such as how to construct trade rules that are applicable across a wide range of varied economic activities. The General Agreement on Trade in Services (GATS) under the WTO is the only multilateral set of rules on trade in services. GATS came into effect in 1995, and many policy experts have argued that the GATS must be updated and expanded if it is to govern services trade effectively. This prospect is diminished given that GATS reform is part of the stalled Doha Round of WTO negotiations.

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Due to the lack of progress on the Doha Round, a group of WTO members, led by the United States and Australia, launched informal discussions in early 2012 to explore negotiating a TISA. On January 15, 2013, the Office of the United States Trade Representative (USTR) notified congressional leaders of the United States’ intention to engage formally in negotiations to reach a plurilateral TISA, in conformity with the now-expired TPA congressional notification requirements. Among U.S. objectives would be to (1) allow U.S. service providers to compete on the basis of quality and competence rather than nationality; (2) permit comprehensive coverage of all services, including services that have yet to be conceived; (3) seek to secure greater transparency and predictability from U.S. trading partners regarding regulatory policies that present barriers to trade in services and hinder U.S. exports; and (4) address new issues arising from globalization and new mechanisms for conducting trade. Negotiations began on April 15, 2013, and include, in addition to the United States, Australia, Canada, Chile, Taiwan (Chinese Taipei), Colombia, Costa Rica, EU (28 members), Hong Kong, Iceland, Israel, Japan; South Korea, Liechtenstein, Mexico, New Zealand, Norway; Pakistan, Panama, Paraguay, Peru, Switzerland, and Turkey. Together, these 23 countries account for more than 70% of global trade in services. China has expressed interest in joining.

Some Members of Congress have long had interest in trade agreements that could affect important domestic sectors, such as services. In addition, Congress would have to approve TISA for it to enter into force in the United States and, therefore, would likely want to play a role in shaping the content and outcome of a TISA. Opening services markets globally has been a longstanding U.S. trade negotiating objective.

20 Years of the North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA), a comprehensive FTA among the United States, Canada, and Mexico, entered into force on January 1, 1994. It continues to be of interest to Congress because of the strong U.S. trade and investment ties with Canada and Mexico and NAFTA’s significance for U.S. trade policy. NAFTA initiated a new generation of trade agreements influencing negotiations in areas such as market access, rules of origin, intellectual property rights (IPR), foreign investment, dispute resolution, worker rights, and environmental protection.

The rising number of regional trade agreements throughout the world, in addition to the growing presence of China in Latin America, could have implications for U.S. trade policy with its NAFTA partners. Some trade policy experts contend that a deepening of economic relations with Canada and Mexico will help promote a common trade agenda with shared values. In addition to economic effects, some proponents state that forming deeper trade and investment ties would have positive implications for corporate governance, worker rights, environmental protection, and democratic governance. However, labor groups and some consumer-advocacy groups argue that the agreement has had negative effects. They maintain that the agreement resulted in outsourcing and lower wages that have had a negative effect on the U.S. economy and that it has caused job dislocations in Mexico, especially in agriculture.

Both proponents and critics of NAFTA agree that the three countries should look at the shortcomings of the agreement as they look to the future of North American trade and economic
relations. Policies could include strengthening institutions to protect the environment and worker rights; considering the establishment of a border infrastructure plan, including more investment in infrastructure to make border crossings more efficient; increasing regulatory cooperation; promoting research and development to enhance the global competitiveness of North American industries; and/or creating more efforts to lessen income differentials within the region.

Some of these issues could be addressed in the TPP as all three NAFTA members are part of the TPP negotiations. If an agreement is reached and is approved by the U.S. Congress, it would alter the rules governing North American trade since NAFTA’s entry into force. While NAFTA would likely continue to be in effect, the three trading partners may have modified or expanded commitments in areas such as IPR, state-owned enterprises, global value chains, discriminatory regulatory barriers, labor, and environmental provisions.

U.S.-China Trade Relations

Since China embarked upon a policy of economic and trade liberalization in 1979, U.S.-Chinese economic ties have grown extensively. Total U.S.-China trade rose from $2 billion in 1979 to $562 billion in 2013. China was the United States’ second-largest trading partner, its largest source of imports, and its third largest export market. According to one U.S. business group, China is a $350 billion market for U.S. firms, based on U.S. merchandise and services exports plus sales by U.S. affiliates in China. China’s large population and rapidly growing economy make it a sizeable market for U.S. exports, and lower-cost imports from China benefit U.S. consumers. China is also an important part of the global supply chain for many U.S. companies, some of which use China as a final point of assembly for their products. China’s large-scale holdings of U.S. Treasury securities (at nearly $1.25 trillion as of October 2014) have helped the federal government finance its budget deficits, thereby helping to keep U.S. real interest rates low. China has emerged as a major economic power. In October 2014, the IMF projected that China would overtake the United States as the world’s largest economy on a purchasing power parity basis in 2014. China’s continued economic rise will likely have a significant impact on the global economy.

Despite growing commercial ties between the United States and China, the relationship has become increasingly complex and often contentious. From the U.S. perspective, many trade tensions stem from China’s incomplete transition to an open-market economy. While China has significantly liberalized its economic and trade regimes over the past three decades (especially since joining the WTO in 2011), it continues to maintain, (or has imposed) a number of state-directed policies that appear to distort trade and investment flows, which some argue, undermine U.S. economic interests. As a result, U.S.-China commercial relations may continue to be a major focus for Congress. Important areas of congressional concern are discussed below.

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Industrial Policies

Numerous policies have been implemented by China to promote the development of domestic industries deemed critical to its future economic growth. China’s primary goals include transitioning from a manufacturing center to a major global source of innovation and reducing the country’s dependence on foreign technology by promoting “indigenous innovation.” The latter policy can amount to discrimination against foreign firms and has become a major source of trade tension with the United States. The Chinese government has responded that they have not and will not discriminate against foreign firms or violate global trade rules, but many U.S. business leaders remain skeptical even as they have acknowledged China’s pledge to delink indigenous innovation from government procurement. Some U.S. firms have also complained about Chinese pressure to establish production facilities in China, share proprietary technology with Chinese partners, or set up R&D centers as a condition for gaining market access. Over the past year or so, several foreign business groups have complained about China’s enforcement of its anti-monopoly laws, arguing that such enforcement may be unfairly targeting foreign firms. The Obama Administration has initiated WTO dispute settlement cases against a number of Chinese industrial policies, including China’s export subsidies provided to auto and auto parts (initiated in September 2012), export restrictions on rare earth elements (March 2012), and preferential subsidies given to Chinese wind power equipment manufacturers (December 2010).

Intellectual Property Rights (IPR) Protection

Lack of effective and consistent protection and enforcement in China of U.S. intellectual property rights (IPR) has 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 unacceptably high. A 2013 survey by the American Chamber in China found that 72% of respondents felt that China’s IPR enforcement regime was ineffective, up from 59% in its 2012 survey. A May 2013 study by the Commission on the Theft of American Intellectual Property estimated the annual cost to the U.S. economy of global IPR theft at $300 billion, of which, China accounted for up to 80% ($240 billion) of those losses.

Cyberattacks by Chinese entities against U.S. firms have raised concerns over the potential theft of U.S. IPR, especially trade secrets, and its implications for the U.S. economy. A February 2013 report by Mandiant, a U.S. information security company, documented extensive economic cyber espionage by a Chinese unit (designated as “APT1”) with alleged links to the Chinese People’s Liberation Army (PLA) against 141 firms, covering 20 industries, since 2006. Following a meeting with Chinese President Xi Jinping in June 2013, President Obama warned that if cyber security issues are not addressed and if there continues to be direct theft of U.S. property, then “this was going to be a very difficult problem in the economic relationship and was going to be an inhibitor to the relationship really reaching its full potential.”

On May 19, 2014, the U.S. Department of Justice issued a 31-count indictment against five members of the Chinese People’s Liberation Army (PLA) for cyber espionage and other offenses that allegedly targeted five U.S. firms and a labor union for commercial advantage, the first time the Federal government has initiated such action against state actors. The indictment appears to indicate a high level of U.S. government concern about the extent of Chinese state-sponsored cyber commercial theft against U.S. firms. China strongly condemned the U.S. indictment and suspended its participation in the U.S.-China Cyber Working Group, established in 2013.
Currency Issues

Unlike most major economies, China does not have a floating currency. Instead, the government pegs its currency (the renminbi—RMB) largely to the U.S. dollar, and intervenes in currency markets to limit its appreciation. Critics charge that China manipulates its currency in order to give its exporters an unfair competitive advantage by making Chinese exports to the United States relatively less expensive and U.S. exports to China relatively more expensive than would occur under free market conditions. They argue that if China’s currency is undervalued, it acts as a subsidy conveyed to Chinese exporters while constituting an additional trade barrier to U.S. exports to China. Some U.S. policymakers contend that China’s currency policy has been a major contributor to large annual U.S. bilateral trade deficits with China (which totaled $318 billion in 2013) and the loss of U.S. manufacturing jobs. Others, while continuing to call for China to move more quickly toward a more market-oriented exchange rate system, argue that China’s currency situation is of less concern as a trade or commercial issue than it was previously. For example, according to the U.S.-China Business Council’s 2014 survey of China’s business environment, the impact of China’s exchange rate on company competitiveness does not rank among top company concerns. Determining the extent to which the RMB is undervalued, if at all, and its impact on U.S.-China trade is subject to ongoing debate.

In 2005, China began to liberalize its currency policy, due in part to international pressure, and allowed the RMB to appreciate gradually. From July 2005 to July 2009, the RMB was allowed to appreciate by 21%. However, once the effects of the global financial crisis became apparent, the Chinese government halted its appreciation of the RMB and kept it relatively constant through June 2010, when it was allowed to appreciate again. From June 2010 through December 2012, the RMB appreciated 9.3% against the dollar. However, from 2012 to 2013, the RMB increased by only 2.8% against the dollar and during the first 10 months of 2014 it depreciated by 1.0%. In October 2014 the Department of the Treasury stated that the RMB remained “significantly undervalued.”

Chinese Economic Reforms and Rebalancing

A major focus of U.S. economic policy towards China has been to persuade it to rebalance its economy by reducing the country’s policy preference for exporting and investing, and to increase an emphasis on consumer demand. This goal could be achieved with a number of policies to boost household incomes (e.g., developing a social safety net and reducing the need to maintain high rates of savings) and implementing reforms to reduce distortive government policies (e.g., maintaining an undervalued currency and using the government-controlled banking system to subsidize state-owned enterprises). Many economists argue that boosting Chinese domestic consumption and eliminating distortive economic policies would greatly increase China’s demand for imports, promote greater competition in China, improve Chinese living standards, and help reduce trade tensions with the United States.

From November 9-12, 2013, the Communist Party of China held the 3rd Plenum of its 18th Party Congress, a meeting that many analysts anticipated would result in the initiation of extensive new economic reforms under China’s new leadership. Following the meeting, the Communist Party issued a communique with a number of broad policy statements. One highlighted by the Chinese media was that the market would now play a “decisive” role in allocating resources in the economy. This was in contrast to previous statements that the market was a “basic” means of allocating economic resources. Some analysts have raised concerns over the communiqué’s statement that China “must unwaveringly consolidate and develop the publicly owned economy,
persist in the dominant role of the public ownership system, give rein to the leading role of the State-owned economy, and incessantly strengthen the vitality, control strength and influence of the State-owned economy.” Some observers contend that this indicates that China will not implement reforms that reduce the role of the government in promoting and supporting state-owned enterprises (SOEs), a goal of U.S. economic officials. Others argue that the Plenum’s signals indicate that SOEs will be subject to greater market forces.

Current Trade and Investment Negotiations with China

The United States engages China through a number of fora that seek to resolve trade disputes and expand bilateral trade and investment relations. For example, bilateral discussions are held annually under the U.S.-China Strategic and Economic Dialogue (S&ED), established in 2009 (it replaced a previous forum established under the Bush Administration called the Strategic Economic Dialogue, or SED). The S&ED represents the highest-level bilateral forum to discuss a broad range of issues between the two nations. In addition, the two sides hold annual meetings under the U.S.-China Joint Commission on Commerce and Trade (JCCT), established in 1983, which focuses primarily on bilateral trade and investment issues. Highlights of recent U.S.-China negotiations on commercial issues include the following:

- **Joint Commission on Commerce and Trade.** At the December 2014 session of the JCCT, China stated that it would: approve the importation of new biotechnology varieties of U.S. soybeans and corn and improve IPR trademark protection for certain agricultural products; amend its trade secrets law and increase cooperation with the United States on enhancing sales of legitimate U.S. intellectual property-intensive goods and services in China; streamline China’s processes and cut red tape for imports of pharmaceuticals and medical devices; and make improvements to its competition enforcement policies by improving transparency and ensuring equal treatment for foreign firms in anti-monopoly investigations with Chinese firms.

- **Information Technology Agreement (ITA).** During President Obama’s visit to China in November 2014, the United States and China announced they had reached an understanding on products that would be covered under a new ITA, a plurilateral agreement that is currently being negotiated among 70 members of the WTO. The agreement would seek to expand on the 1996 ITA by adding more than 200 tariff lines that would be subject to zero tariffs. Up until recently, China had been criticized by U.S. officials for holding up the ITA by seeking to exclude a broad range of products from tariff elimination in order to protect certain Chinese industries, such as semiconductors, a position that contributed to a suspension in the ITA negotiations in November 2013.

- **Bilateral Investment Treaty (BIT).** The United States and China have held negotiations over the past few years on reaching a BIT with the goal of expanding bilateral investment opportunities. U.S. negotiators hope such a treaty would improve the investment climate for U.S. firms in China by opening up sectors previously closed to foreign investors, enhancing legal protections and dispute resolution procedures, and ensuring U.S. investors are treated no less favorably than Chinese investors. During the July 2013 session of the S&ED, China agreed that it would negotiate a “high-standard” BIT with the United States that would include all stages of investment and all sectors, a commitment U.S. officials described as “a significant breakthrough, and the first time China
has agreed to do so with another country.” China also agreed to use the “negative list” approach in reducing ownership restrictions via the BIT, where all industries except those explicitly listed would be open to investment. The two sides have set a goal of completing the major articles of the BIT by the end of 2014 and to begin negotiations on the negative list by early 2015. A short negative list would be viewed as a good sign that China was now ready to significantly liberalize its foreign investment regime and might improve the chances of the treaty being passed in the U.S. Senate, while a long negative list might indicate that negotiations would take much longer.

- **Government Procurement Agreement (GPA).** Government procurement policies are largely exempt from WTO rules, except for those 43 members that are parties to the WTO GPA. China’s membership in the GPA has been a top U.S. priority because China is one of the world’s largest and fastest growing public procurement markets, estimated by U.S. officials at $200 billion annually. China indicated that it would join the GPA after it joined the WTO, but did not begin negotiations until 2007. While it has submitted several offers, it has failed, to date, to submit an offer acceptable to current GPA members. At the December 2013 JCCT meeting, China stated that it would submit a new improved offer by the end of 2014.

**U.S. Trade Promotion and Financing**

In addition to U.S. trade negotiations, the federal government promotes U.S. exports and investments through providing finance and insurance programs that are administered chiefly by the Export-Import Bank (Ex-Im Bank); Department of Agriculture; and Overseas Private Investment Corporation (OPIC). In addition, the Department of Commerce supports U.S. exports and inward investment into the United States through trade missions, advocacy, market research, and other activities, often with an emphasis on U.S. small businesses. Other agencies also play a role. U.S. trade promotion activities can be focused through various Administration initiatives, broad-based as well as targeted to specific geographic regions or sectors. General issues regarding trade promotion and financing include the extent to which federal government efforts are aligned or serve competing U.S. policy goals; the adequacy of federal funding of such efforts; coordination of such activities; and whether alternative policy options may be more effective.

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

Ex-Im Bank and OPIC are two U.S. government agencies that help facilitate international transactions by U.S. businesses and are subject to reauthorization by Congress. Ex-Im Bank provides direct loans, guarantees, and insurance to help finance U.S. exports, in support of U.S.

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employment. OPIC provides political risk insurance and finance to facilitate U.S. private investment in developing countries, in support of U.S. foreign policy objectives. The financial activities of Ex-Im Bank and OPIC are backed by the full faith and credit of the U.S. government. Both agencies seek to fill gaps in private sector finance, and to help level the playing field for U.S. businesses competing against foreign companies that receive government-supported financing. As demand-driven agencies, their actual levels of financial support depend on commercial interests. Both agencies use offsetting collections, generated from fees charged for their services and other sources, to fund their activities. Congress approves an annual appropriation setting an upper limit on each of the agencies’ administrative and program expenses.

Congress has responsibility for reauthorizing Ex-Im Bank and OPIC. The FY2015 continuing resolution (P.L. 113-164) extends Ex-Im Bank’s general statutory charter through June 30, 2015. Previously, the charter, which was extended for about two years and four months, was set to sunset on September 30, 2014 (P.L. 112-122). As the new sunset date nears, Congress may debate whether to renew Ex-Im Bank’s authority; if so, for how long and under what terms; and if not, other policy alternatives. In contrast, Congress last reauthorized OPIC via “stand-alone legislation” in 2003, extending its authority through FY2007. Since then, Congress has extended OPIC’s authority to conduct its programs through the annual appropriations process. The FY2015 appropriations legislation (P.L. 113-235) extends OPIC’s authority until September 30, 2015. Although Congress has made some adjustments to OPIC’s activities through appropriations legislation, consideration of OPIC reauthorization could afford Members greater opportunity to weigh in on broader OPIC issues, such as the agency’s role in U.S. foreign policy.

The 114th Congress could consider a range of issues related to Ex-Im Bank and OPIC reauthorization. Most fundamentally, Congress faces a decision of whether to reauthorize them. Congress could examine these agencies’ economic and competitive rationales, their implications for the size and scope of the U.S. government, how these agencies compare to foreign counterparts, and international trade rules that may guide these agencies’ financing practices. Should Congress decide to renew their authorities, the length of reauthorization may be debated. On one hand, a multi-year or permanent authorization could enhance these agencies’ long-term planning capacity and ability to assure businesses of the stability of their programs. On the other hand, shorter-term renewals could permit enhanced congressional oversight. Congress also could examine possible revisions to these agencies’ policies, viewing them in the context of their effectiveness and efficiency in meeting statutory mandates and other requirements; the competitiveness of such policies relative to those of foreign countries’ counterparts; implications for business, labor, environmental, taxpayer, and other stakeholder interests; and financial soundness and risk management.

### Export Controls and Sanctions

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. policy concerns about proliferation, regional stability, and human rights. In the 114th Congress, these controls and sanctions may raise difficult
issues over how to balance U.S. foreign policy and national security objectives against U.S. commercial and economic interests.

The President’s Export Control Initiative

In 2009, the Obama Administration launched a comprehensive review of the U.S. export control system. In the current system, responsibility for controlling exports is divided among the Departments of Commerce, State, and the Treasury, 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. Key elements of the Administration’s reform agenda include a four-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 (i.e., both commercial and defense uses), with the U.S. Munitions List (USML). This has been done through an ongoing category-by-category review of USML items and a migration of what the Administration deems as less sensitive items to the CCL. Congressional notification is required if items are moved from the munitions list to the dual-use list; the first of these notifications occurred in March 2013. Since the first rulemakings were announced in November 2013, rules to transfer certain items in 15 of 21 USML categories have been issued and taken effect with the most recent on December 30, 2014. The President also made the determination required by the National Defense Authorization Act (NDAA) of 2013 that the transition of certain satellites and related items from the USML to the CCL was in the national interest. An Export Enforcement Coordination Center (E2C2), which was created by executive order on November 9, 2010, has been set up within the Department of Homeland Security to synchronize enforcement efforts. An integrated information technology system based on the Defense Department’s USXports platform has been adopted by the Department of State, although its implementation by Commerce is still ongoing.

The 114th Congress may scrutinize this effort through oversight and may be asked to approve certain changes proposed by the Administration, including the creation and placement of a proposed licensing agency. Congress may also attempt to reauthorize or rewrite the currently expired Export Administration Act (EAA), the statutory basis of dual-use export controls.

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Written by Ian F. Fergusson, Specialist in International Trade and Finance, x7-4997. See CRS Report R41916, The U.S. Export Control System and the President’s Reform Initiative, by Ian F. Fergusson and Paul K. Kerr.
Economic Sanctions

Economic sanctions may be defined as coercive economic measures taken against a target to bring about a change in policies. They 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 decision to apply trade and aid sanctions is based, to some extent, on a country’s record with respect to human rights, religious freedom, international terrorism, terrorist financing, proliferation of weapons of mass destruction, treaty violations, international narcotics trafficking, trafficking in persons, trafficking in protected natural resources and endangered species, child abduction, interference with democratic processes, war crimes, corruption, cyber espionage, and money laundering. The United States currently maintains robust sanctions regimes against foreign governments it has identified as supporters of acts of international terrorism (Cuba, Iran, Sudan, Syria), nuclear arms proliferators (Iran, North Korea, Syria), egregious violators of international human rights standards (Belarus, Burma, Cuba, Iran, North Korea, Russia, Syria), and those threatening regional stability (Iran, North Korea, Russia, South Sudan, Sudan, Syria). The United States also targets individuals and entities with economic and diplomatic restrictions to meet the requirements of the United Nations Security Council (Central African Republic, Cote d’Ivoire, Democratic Republic of Congo, Eritrea, Guinea-Bissau, Iran, Liberia, Libya, North Korea, Somalia, South Sudan, Sudan, Yemen).

The 113th Congress, in its closing days, passed the Ukraine Freedom Support Act of 2014 (H.R. 5859, signed by the President on December 18, 2014) to require the President to impose economic and diplomatic restrictions on Rosoboronexport—a Russian-state-controlled arms dealer whose clients include the governments of Syria, Iran, and Venezuela. The act also expanded the President’s discretionary authorities to tighten sanctions on Russia’s defense, energy, and financial sectors, particularly those involved in supplying the Syrian government with defense articles, or those that support Russia’s incursions into, or threats toward, Ukraine, Georgia, and Moldova. The 114th Congress may closely monitor implementation of the Ukraine Freedom Support Act.

The 113th Congress left on the table legislative proposals targeting some 20 foreign governments, all of which continue to engage in the original activities that attracted Congress’ attention enough to consider changing the bilateral relationship. Three areas will be of particular attention: North Korea (see H.R. 1771, 113th Congress); Iran, which might be subject to new sanctions in 2015 targeting Iran’s nuclear ambitions conditional on the success of multilateral negotiations that were extended in late November 2014; and Cuba, to curtail the President’s announcement in December 2014 that he intends to seek normalized relations with that country.

Thus it seems the odds are high that economic sanctions will continue as a foreign policy or national security tool.

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Import Policies

U.S. policies affecting imports are shaped by a mixture of economic objectives, foreign policy interests, and political considerations. The case for supporting freer trade and more open markets rests on the view that they yield substantial economic benefits for all participating countries. However, since the gains from trade may be disproportionately allocated within domestic economies, some industries and workers may be adversely affected by import competition. Thus, international trade rules also allow governments to provide means (called “trade remedies”) by which certain groups may petition for temporary protection from import surges of “fairly” traded imports, or for redress in certain cases of “unfair” imports. The U.S. government has also provided direct relief to workers, firms, and farmers adversely impacted by trade through the Trade Adjustment Assistance (TAA) program. U.S. import policies also support more open trade with developing countries in the form of trade preference programs that provide nonreciprocal preferential access to the U.S. market in order to form closer economic ties and support economic growth in developing countries. Import policy issues in which Congress has a direct interest include five broad policy areas: (1) trade remedies; (2) trade preferences; (3) border security and trade facilitation; (4) tariffs; and (5) trade adjustment assistance.

Trade Remedies

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 (1) antidumping (AD), which provides relief from injurious imports sold at less than fair market value; (2) countervailing duty (CVD), which provides relief from injurious imports subsidized by a foreign government or public entity; and (3) safeguards, which provide temporary relief from import surges of fairly traded goods. They are enforced primarily through the administrative procedures of two U.S. government agencies, the Department of Commerce and the United States International Trade Commission. In AD and CVD cases, the remedy is an additional duty assessed to offset the calculated amount of dumping or subsidy. In safeguard cases that are determined by the President, a temporary import quota or a tariff may be assessed. In addition, the WTO agreements contain specific obligations on these measures to which its member countries, including the United States, adhere.

Congress enacted and over time has amended these trade remedy laws, but individual AD and CVD cases require no direct congressional action. Nonetheless, they are often the subject of congressional interest, especially if constituents are involved as domestic manufacturers or as importers of merchandise subject to trade remedy investigations. In 2014, a case on oil country tubular goods (OCTG) from China and other countries was the subject of intense interest from members of the Congressional Steel Caucus. The Department of Commerce is negotiating prospective suspension agreements (in lieu of additional AD/CVD action) in two other high-profile investigations, on solar panels from Mexico, and on solar panels from China. The results of these negotiations may be announced early in the 114th Congress. If an agreement is not reached, the trade remedy investigations will continue.

11 Written by Vivian C. Jones, Specialist in International Trade and Finance, x7-7823. See CRS Report RL32371, Trade Remedies: A Primer, by Vivian C. Jones; and CRS Report IF10018, Trade Remedies: Antidumping and Countervailing Duties, by Vivian C. Jones.
Trade Preferences

Since 1974, Congress has created six trade preference programs designed to assist “lesser developed” countries: (1) the Generalized System of Preferences (GSP—expired July 31, 2013), which applies to all eligible developing countries; (2) the Andean Trade Preference Act (APTA—expired July 31, 2013); (3) the Caribbean Basin Economic Recovery Act (CBERA—permanent); (4) the Caribbean Basin Trade Partnership Act (CBTPA—expires September 30, 2020); (5) the African Growth and Opportunity Act (AGOA—expires September 30, 2015); and (6) the Haitian Opportunity through Partnership Encouragement Act (HOPE—expires September 30, 2020). Except for CBERA, which is permanent, these programs give temporary, nonreciprocal, duty-free access to the U.S. market for a select group of exports from eligible countries.

Congress authorizes, revises, and conducts regular oversight of these programs. Given GSP’s expiration in 2013 and AGOA’s upcoming expiration in September 2015, the 114th Congress may consider legislation to extend and perhaps revise these programs, both of which typically enjoy bipartisan support. In 2014, the EU and Canada made substantial changes to their GSP programs which may be of interest as Congress considers GSP renewal. A TPA also expired in 2013, but at the time of its expiration, Ecuador was the only remaining beneficiary country and tensions in U.S. relations with the country make it less likely that the program will be considered for reauthorization in the 114th Congress.

African Growth and Opportunity Act (AGOA)

With its current expiration set for 2015, AGOA received increased congressional interest in the 113th Congress. Both the Administration and relevant congressional committees have requested agency evaluations of the preference program in preparation for the renewal debate. The Administration has also initiated an interagency review of trade capacity building efforts in the region with recommendations due early in 2015. The 113th Congress introduced legislation to expand U.S. trade with Africa and improve the region’s energy production and transmission capabilities. As a cornerstone of U.S.-Africa trade policy, the potential reauthorization and reform of AGOA may build upon these broader efforts to increase U.S.-Africa trade and investment. Given the significant improvement in the economies of several African countries since AGOA was enacted and increased focus on opportunities for U.S. businesses in the region, the AGOA renewal debate may also have a greater focus on two-way U.S.-Africa trade, particularly with South Africa, the most developed economy in the region. In the South African market some U.S. exporters currently face a disadvantage relative to EU exporters given the EU’s reciprocal trade agreement with South Africa. As a nonreciprocal preference program, AGOA currently provides tariff benefits for African exports destined for the United States.

The timing of AGOA’s renewal may also be of interest to the 114th Congress. In 2012, an important provision (“third country fabric provision”) related to AGOA apparel exports was renewed one month before it was scheduled to expire. Some stakeholders argued that the

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13 Written by Brock Williams, Analyst in International Trade and Finance, x7-1157. See CRS Report, R43173, African Growth and Opportunity Act (AGOA): Background and Reauthorization, by Brock R. Williams; and CRS In Focus IF00041, African Growth and Opportunity Act (AGOA) (In Focus), by Brock R. Williams.
uncertainty over the renewal caused a drop in apparel orders from the region and subsequent employment losses. Proponents of AGOA’s renewal would like to see the preference program renewed as early as possible to prevent a similar disruption in trade during this renewal debate. Such concerns may impact what reforms, if any, the 114th Congress considers for AGOA, as potentially controversial reforms could delay the renewal process.

**U.S. Customs and Border Protection (CBP) Reauthorization**

U.S. Customs and Border Protection (CBP), within the Department of Homeland Security (DHS), is the primary agency charged with ensuring the smooth flow of trade through U.S. ports of entry (POEs)—in 2013 more than $2 trillion in goods were imported into the United States. CBP’s policies with regard to U.S. imports are designed to (1) facilitate the smooth flow of imported cargo through U.S. ports of entry; (2) enforce trade and customs laws designed to protect U.S. consumers and business and to collect customs revenue; and (3) enforce import security laws designed to prevent weapons of mass destruction, illegal drugs, and other contraband from entering the United States—a complex and difficult mission. Congress has a direct role in organizing, authorizing, and defining CBP’s international trade functions, as well as appropriating funding for and conducting oversight of its programs.

The 114th Congress may consider legislation to reauthorize CBP’s trade functions in the above areas, and to provide additional funding for CBP’s modernization efforts, such as the continuing development of the Automated Commercial Environment (ACE), an online platform designed to facilitate the import process, and the International Trade Data System (ITDS), a U.S. Treasury Department-led effort to develop an online “single window” for all U.S. agencies involved in import processing to clear goods for entry into the U.S. market. In mid-February 2014, President Obama signed an Executive Order mandating Federal agencies to coordinate efforts to insure that the ITDS is completed by December 31, 2016.

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 nontransparent or unequally enforced importation rules and requirements. Multilateral efforts to streamline trade facilitation procedures were addressed as part of a “Bali Package” of “deliverables” at the 9th WTO Ministerial Conference in December 2013 (see WTO above). The final text contains several provisions sought by U.S. negotiators, including transparent multilateral rules for timely, binding advance customs rulings; and procedures that would allow expedited release for goods entered through air cargo facilities.

One issue of congressional interest in prior customs reauthorization legislation is CBP’s under-collection of AD and CVD duties. Improving AD/CVD duty collection is a priority trade issue for CBP, and the agency has attempted to modify its procedures (e.g., requiring additional bond amounts for subject merchandise) in ways that have been subject to court challenges. Thus, this could also become an issue in 114th Congress reauthorization legislation. Interested parties also allege that CBP and its sister agency U.S. Immigration and Customs Enforcement (ICE) are slow to investigate allegations of AD/CVD duty circumvention. These issues were addressed in the 112th (H.R. 6642 and H.R. 6656) and 113th Congresses (S. 662) in customs reauthorization legislation.

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legislation introduced by the committees of jurisdiction. Oversight into CBP efforts to enhance cargo security may also receive congressional attention as part of, or separate from, consideration of a CBP reauthorization bill. The SAFE Port Act (P.L. 109-347), as amended, included a statutory mandate to scan all U.S. maritime cargo with nonintrusive inspection equipment at overseas ports of loading by July 2012. On May 2, 2012, Homeland Security Secretary Napolitano notified Congress that she would exercise her authority to extend the 100% scanning deadline. Thus, cargo screening could become a focus of additional legislation in the 114th Congress, among other issues.

Miscellaneous Tariff Bill (MTB)\textsuperscript{15}

Many Members of Congress have introduced bills that support importer requests for the temporary suspension of tariffs on chemicals, raw materials, or other nondomestically made components generally used as inputs in the manufacturing process. A rationale for these requests is that they help domestic producers of manufactured goods reduce costs, making their products more competitive. Due to the large number of bills typically introduced, they are often packaged together in a broader miscellaneous tariff bill. P.L. 111-227, the most recent MTB, was enacted on August 11, 2010 and expired on December 31, 2012.

 Legislation could emerge in the 114\textsuperscript{th} Congress proposing to retroactively renew these duty suspensions, enact new ones, or make procedural changes to the MTB process. Consideration of an MTB bill could be controversial because of past congressional moratoriums on “earmarks,” which have included measures to provide “limited tariff benefits.”

Trade Adjustment Assistance\textsuperscript{16}

Trade Adjustment Assistance (TAA) provides federal assistance to domestic workers, firms, and farmers who have been adversely affected by increased trade liberalization. It is justified presently, as it has been historically, on grounds that the government has an obligation to help those hurt by policy-driven trade opening. TAA is also presented as an alternative to policies that would restrict imports, and so provides assistance for adversely affected workers and firms while bolstering freer trade and diminishing prospects for potentially costly tension (retaliation) among trade partners. As in the past, critics debate the merits of TAA on equity, efficiency, and budgetary grounds.

The TAA program for workers is the largest TAA program. It supports qualified workers who have lost their jobs because of increased imports or because of production shifts to a foreign country. The program has operated under several different sets of provisions in recent years. While the specific benefits under the program have varied, the primary benefits under the TAA for workers program are (1) training subsidies to prepare workers for new occupations and (2)

\textsuperscript{15} Written by Vivian C. Jones, Specialist in International Trade and Finance, x7-7823. See CRS Report RL33867, \textit{Miscellaneous Tariff Bills: Overview and Issues for Congress}, by Vivian C. Jones.

\textsuperscript{16} Written by M. Angeles Villarreal, Specialist in International Trade and Finance, x7-0321 and Benjamin Collins, Analyst in Labor Policy, x7-7382. For more information, see CRS Report R42012, \textit{Trade Adjustment Assistance for Workers}, by Benjamin Collins; CRS Report RS20210, \textit{Trade Adjustment Assistance for Firms: Economic, Program, and Policy Issues}, by Glennon J. Harrison; CRS Report R40206, \textit{Trade Adjustment Assistance for Farmers}, by Mark A. McMinimy; and CRS Report R41922, \textit{Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy}, by J. F. Hornbeck.
income support for workers who are enrolled in training and have exhausted their unemployment insurance. Prior to 2009, the program was limited to dislocated production workers. From 2009 to 2013, service workers were also eligible to be certified to TAA benefits. Beginning in 2014, eligibility for new petitioners was once again limited to production workers.

In addition to the TAA for workers program, TAA programs are also available to firms and farmers that have been adversely affected by international competition. TAA for firms supports trade-impacted businesses by providing technical assistance in developing business recovery plans and by providing matching funds to implement those plans. TAA for farmers provides technical support and cash benefits to producers of agricultural commodities and fisherman who are adversely affected by increased imports.

TAA is authorized by Title II of the Trade Act of 1974, as amended. It was last reauthorized by the Trade Adjustment Assistance Extension Act of 2011 (TAAEA; Title II of P.L. 112-40). TAAEA was considered and passed alongside the three 2011 FTAs. Under TAAEA, the TAA program was set to be phased out beginning December 31, 2014. However, the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) provided funding for the program and the appropriation bill’s explanatory statement expressed the intent of providing for “the full operation of the program throughout fiscal year 2015.”

TAA renewal continues to spur debate in Congress. Some members have suggested that TAA reauthorizations be tied to the granting of trade negotiating authority. On July 30, 2013, President Obama announced support for reauthorization of TAA and linked it to the passage of the Trade Promotion Authority. In the 113th Congress, legislation was introduced to extend and reauthorize TAA (H.R. 4163 and S. 2964). Some Members question the need for renewal of TAA and suggest that dislocations caused by trade should be addressed by broader U.S. employment and worker training programs.

Intellectual Property Rights (IPR)

The international protection and enforcement of IPR—such as patents, copyrights, trademarks, and trade secrets—is a major component of U.S. trade policy, due to the significant role of IPR in the U.S. economy and the potentially negative commercial, health, safety, and security consequences of counterfeiting and piracy. The United States pursues intellectual property objectives using a range of trade policy mechanisms, including multilaterally through the WTO, which administers the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”); regionally and bilaterally through the negotiation and enforcement of FTAs; and domestically through U.S. trade laws.

IPR and U.S. Trade Negotiations

IPR protection and enforcement have been a key negotiating objective in U.S. trade agreement negotiations. The United States generally seeks intellectual property commitments that exceed the

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17 Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance, x7-9253; and Ian F. Fergusson, Specialist in International Trade and Finance, x7-4997. See CRS Report RL34292, Intellectual Property Rights and International Trade, by Shayerah Ilias Akhtar and Ian F. Fergusson; and CRS In Focus IF10033, Intellectual Property Rights (IPR) and International Trade (In Focus), by Shayerah Ilias Akhtar and Ian F. Fergusson.
minimum standards of the WTO TRIPS Agreement, known as “TRIPS-plus.” In the 114th Congress, issues include possible oversight of enforcement of IPR commitments in existing U.S. FTAs and the treatment of IPR issues in current U.S. trade negotiations on TPP and T-TIP.

Newer prominent IPR issues have surfaced in the current TPP and T-TIP negotiations, such as IPR issues related to the digital environment, including

- Internet Service Provider (ISP) liability;
- trade secret protection to combat cybertheft; and
- cross-border data flows, localization barriers, and data privacy.

Other key IPR issues in these trade negotiations include

- the scope of patentability;
- pharmaceutical patents and implications for access to medicines;
- data exclusivity for pharmaceuticals and biologics (restrictions on using test data given for market approval); and
- treatment of geographical indications (GIs, which protect distinctive products from a certain region, applying primarily to agricultural products) and their effect on market access.

The proposed TPP and T-TIP could be used to develop common IPR approaches for addressing issues of mutual interest related to countries outside of these FTAs, as well as through the WTO.

**IPR and Other U.S. Trade Policy Tools**

The United States has certain domestic trade policy tools to advance IPR goals. These tools may be particularly relevant in addressing U.S. IPR goals with respect to key emerging economies, such as China, India, and Brazil, which are not a part of existing U.S. FTAs or current FTA negotiations.

One tool is the “Special 301” report, which the United States Trade Representative (USTR) publishes annually, pursuant to the Trade Act of 1974, as amended. The report identifies countries that do not offer “adequate and effective” IPR protection, designating the countries on various “watch lists.” A country can be designated even if it is complying with its TRIPS commitments. Special 301 designations, according to USTR, are based on interagency deliberations, as well as consultations with Congress, affected stakeholders, foreign governments, and other interested parties. China and India are among countries of top concern identified in the report. Trade secret theft, including through cybertheft, is a growing area of focus. The 114th Congress could examine the effectiveness of the Special 301 in encouraging countries’ compliance with their IPR commitments, as well as whether Special 301 designations represent a balanced assessment of countries’ IPR regimes.

Another tool is Section 337 of the Tariff Act of 1930, as amended, which authorizes the U.S. International Trade Commission (ITC) to prohibit imports of products into the United States that infringe on U.S. intellectual property. Section 337 cases have been largely patent-focused. In the 112th Congress, legislative efforts related to Section 337 focused on addressing jurisdictional problems associated with holding foreign websites accountable for piracy and counterfeiting,
renewing debate about the balance between protecting U.S. intellectual property and promoting innovation. Since then, digital IPR infringement issues have remained a core IPR focus in U.S. trade negotiations. The 114th Congress could take these issues up again, as well as other issues, including CBP’s enforcement of Section 337 exclusion orders. Concerns have been raised by some Members, as well as other stakeholders, about the effectiveness, efficiency, and transparency of the Section 337 enforcement process.

International Investment

The United States is the largest source and recipient of foreign direct investment (FDI) in the world. This dual position points to one aspect of globalization, the spread of economic activity by firms across national borders, which has become a prominent feature of the U.S. economy. Globalization also means the United States has important economic, political, and social interests at stake in the development of international policies regarding direct investment. Congress weighs in on all aspects of these international investment issues.

Foreign Investment and National Security18

The United States has established domestic policies that treat foreign investors no less favorably than U.S. firms, with some exceptions for national security. Under current U.S. law, the President exercises broad discretionary authority over developing and implementing U.S. direct investment policy, including the authority to suspend or block investments that “threaten to impair the national security.” Despite the leading role of the President, Congress also is directly involved in formulating the scope and direction of U.S. foreign investment policy. For instance, following the terrorist attacks on the United States on September 11, 2001, some Members questioned the traditional U.S. open-door policy and argued for greater consideration of the long-term impact of foreign direct investment on the structure and industrial capacity of the economy, and on the ability of the economy to meet the needs of U.S. defense and security interests.

In July 2007, Congress asserted its own role in making and conducting foreign investment policy when it adopted and the President signed the Foreign Investment and National Security Act of 2007 (P.L. 110-49) that formally established the Committee on Foreign Investment in the United States (CFIUS). This law broadens Congress’s oversight role, and explicitly includes the areas of homeland security and critical infrastructure as separately identifiable components of national security that the President must consider when evaluating the national security implications of foreign investment transactions. The law also grants the President the authority to suspend or block foreign investments that are judged to threaten U.S. national security, although the law does not define what constitutes national security relative to a foreign investment. To date, the law has been used twice to block a foreign acquisition of a U.S. firm. At times, the act has drawn Congress into a greater dialogue over the role of foreign investment in the economy and the relationship between foreign investment and the general concept of national economic security.

U.S. International Investment Agreements

The United States promotes international investment agreements to reduce restrictions on foreign investment, ensure nondiscriminatory treatment of foreign investment, protect investor rights, provide impartial investor-state dispute settlement, and balance other U.S. policy interests. International investment agreements typically take two forms: bilateral investment treaties (BITs) and BIT-like chapters in free trade agreements (FTAs). In April 2012, the Obama Administration announced the conclusion of its review of the U.S. Model BIT, the template the United States uses to negotiate with foreign countries on BITs and investment chapters in FTAs. BITs are submitted to Congress as treaties, which require a two-thirds vote of approval in the Senate for ratification. FTAs, by contrast, require simple majority approval of the trade agreement implementing legislation by both Houses of Congress.

The 2012 Model BIT maintains the “core” or substantive investor protections affirmed in the 2004 Model BIT review. In addition, it clarifies that BIT obligations apply to state-owned enterprises (SOEs); includes language further limiting performance requirements; clarifies labor and environmental provisions; clarifies which financial services provisions may fall under a prudential exception (such as to address balance of payments problems); and expands transparency obligations, among other provisions. The conclusion of the Model BIT review has renewed interest in concluding previously launched negotiations and launching negotiations with other U.S. trading partners. Focal points on the U.S. BIT agenda include ongoing negotiations with China and India, countries with markets that include both significant market opportunities and challenges. The United States also continues to explore the possibility of investment treaties with other trading partners, including the East African Community (EAC).

Investment policy issues feature prominently in U.S. FTA negotiations. Over the past several years, the United States has been negotiating the TPP with eleven other countries in the Asia-Pacific and, more recently, the T-TIP with the European Union. In both negotiations, a particularly active area of debate has been investor-state dispute settlement (ISDS), which allows investors to bring claims against forum governments for binding resolution in an impartial forum. ISDS elicits debate about the relationship between protecting investors and ensuring governments’ ability to regulate in the public interest. Additionally, for both TPP and T-TIP, any investment commitments reached could be used to signal the importance of investment protections to third countries or develop common international investment rules. Given the scale and scope of international investment that would be covered under these agreements, the treatment of investment may continue to be a key issue for Members of Congress during the 114th Congress.

Promoting Investment in the United States

U.S. investment policy includes a focus on attracting investment to the United States. The Department of Commerce’s SelectUSA program, established by Executive Order 13577 (June 2011), is intended to coordinate federal efforts to attract and retain investment in the United States, complementing states’ investment promotion activities. Its role includes serving as an

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20 Ibid.
information resource on investment; helping to resolve investment issues involving federal programs and activities; and advocating at a national level to attract inward investment. SelectUSA seeks to be geographically neutral regarding investment locations in the United States. In the 113th Congress, legislation was introduced to authorize appropriations for SelectUSA for FY2014-2018 (H.R. 1413/S. 1608). The 114th Congress could consider SelectUSA’s authorization status, funding levels, and effectiveness in supporting U.S. investment goals.

International Finance, Institutions, and Crises

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 all these institutions.

The IFIs and the Group of Twenty (G-20) major economies were at the forefront of the global response to the financial crisis in 2008 and ensuing crisis in the Eurozone, dramatically increasing their lending to help countries absorb the impact of reduced economic growth and its effects on trade and financial flows. To cover increased lending, the IMF and the MDBs sought new donor resources. The rise of emerging markets in the global economy and their role in the international financial architecture is also a major policy issue. As the urgency of the financial crisis and Eurozone crisis has waned, attention has turned from crisis response measures to promoting sustainable growth in the global economy.

International Monetary Fund21

Recent congressional attention has centered on how IMF resources have been used since the 2008 global economic crisis, on proposed IMF governance changes, and on the IMF’s role in the Eurozone debt crisis.

In December 2010, the Board of Governors of the IMF agreed to a wide-ranging set of institutional reforms. If enacted, they would increase the institution’s core source of funding and expand the representation of major emerging market countries, such as Brazil, India, China, and Mexico. In order for key elements of the reform package to take effect, IMF rules dictate that the reforms must be approved by three-fifths of IMF members (113) representing 85% of the total voting power. Under this formula, approval by the United States is essential because it controls 16.75% of the voting power. Under U.S. law, congressional authorization is required for the United States to consent to change the U.S. quota in the IMF, which determines the U.S. share of total voting power. Furthermore, depending on the budgetary treatment of any newly authorized U.S. contributions to the IMF, appropriations may be required.

To date, a majority of IMF member countries have approved these reforms, but the United States has not. In spring 2013, there was discussion about including the IMF reform package in Ukraine-related legislation. The Senate Ukraine assistance bill (S. 2124), as introduced and passed by the Senate Foreign Relations Committee, included IMF reform language but was removed by Senate leadership to ease passage in the House, where there was greater opposition. Critics argued that the IMF has sufficient available capital to fund any potential loan program and that there are “exceptional access” procedures in the event that Ukraine needs to borrow beyond its access limits. Rather than attaching the IMF language to a Ukraine-related measure, they argued, it would be more prudent to address U.S. funding to the IMF as part of the regular appropriations process.

U.S. inaction reportedly created tensions at the IMF-World Bank Annual Meetings in October 2013 and October 2014, with some IMF members frustrated because the United States was instrumental in initially advancing some of the reforms.

Multilateral Development Banks

Many policymakers view U.S. participation in the MDBs as important because the United States is the largest overall shareholder at the MDBs, a position which also defines its power to veto, which it can exercise under certain circumstances. The Obama Administration has strongly supported capital increases and concessional replenishments at the MDBs, but cautioned that the increases must be tied to policy reforms to: improve transparency, accountability, and governance; better align management performance and incentives with improved development outcomes; and delineate more clearly the division of labor between the World Bank and the regional development banks. Congress may evaluate the effectiveness of and possibly consider future appropriations for MDBs.

The BRICs Bank and the Asian Infrastructure Investment Bank (AIIB)

On October 24, 2014, China and 20 other countries signed an agreement to establish a new development bank, the Asian Infrastructure Investment Bank (AIIB). As its name suggests, the new entity is expected to focus on financing infrastructure projects throughout the region. The AIIB announcement followed closely an agreement in July 2014 on a separate development institution, the New Development Bank (NDB), by the leaders of the BRICS countries, Brazil, Russia, India, China, and South Africa. Some observers are concerned that these new development banks may be duplicative of existing multilateral and regional institutions, and might provide financing with minimal, if any, policy conditionality and without adhering to established environmental and social safeguards, which many developing countries believe are too burdensome. By contrast, the United States and other major donors consider policy conditionality, safeguards, and other best practices, measures such as rules on procurement, as being central to the effectiveness of development assistance, and have used their leadership in the MDBs to advance these priorities.

While the United States has not outright opposed the creation of the AIIB and the BRICs Bank, officials have reportedly pressured governments from joining. U.S. State Department officials have also publicly raised reservations about the AIIB, noting that any new institutions should “incorporate high standards of governance, environmental and social safeguards.” During the 114th Congress, Members may choose to monitor the development of these institutions and explore options for the Administration to meaningfully engage with them.

G-20

The Group of 20, or G-20, is the premier forum for international economic cooperation and coordination, and includes 20 major advanced and emerging-market economies that, together, account for two-thirds of the world’s population and 90% of world GDP. Members of the G-20 include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, and the United States, as well as the European Union (EU). The leaders of the G-20 countries hold annual “summits,” as well as more frequent gatherings of finance ministers, central bankers, and other officials. Discussions and agreements primarily focus on international economic and financial issues, although related topics, such as development, food security, and the environment, may also be featured.

The G-20 has a rotating presidency, which was held by Australia in 2014. Australia focused the 2014 agenda on global economic growth. In February 2014, the G-20 finance ministers and central bank governors pledged to develop policies that would boost the G-20’s collective GDP by 2.1% over the next five years. At the 2014 summit held in Brisbane, Australia in November, the G-20 leaders announced a “Brisbane Action Plan” of individual country commitments and collective actions to meet this goal. At the November summit, leaders also discussed a range of issues, including investment in infrastructure, climate change, trade liberalization, female participation in the workforce, anti-corruption efforts, Ebola, and reforms at the IMF.

Russia’s participation in the 2014 summit was one of the most controversial issues. Several G-20 members, including the United States, the EU, Australia, Canada, and Japan, have imposed economic sanctions on Russian individuals and entities in response to Russia’s annexation of the Crimean region of Ukraine and efforts to destabilize eastern and southern Ukraine. In March 2014, the United States and other countries announced that they were effectively banning Russia from the G-8, a small forum for advanced economies, and instead would convene as the G-7, which excludes Russia. Some analysts and policy makers also called for Russia to be excluded from the G-20 summit in November. Russian President Vladimir Putin ultimately did attend the G-20 summit, although left early. Reportedly, Russia’s actions in Ukraine and sanctions were the subject of heated debates in meetings, although the issues were not reflected in the official summit communiqué. Some analysts argue that, regardless of the other outcomes of the summit, Australia’s G-20 legacy will be the precedent that members are not excluded from G-20 discussions.

The Eurozone Sovereign Debt Crisis

The United States and Europe have the largest bilateral economic relationship in the world, and many Members of Congress have stressed that a robust European economy is important to U.S. interests. Members have closely monitored the economic crisis in the Eurozone and subsequent economic developments in Europe. Beginning in late 2009, the Eurozone faced an economic crisis that has posed serious threats to economic stability in Europe and the broader international economy. The concerns of investors and policymakers have focused on high, and potentially unsustainable, levels of public and private debt in some Eurozone countries, particularly Greece, Ireland, Italy, Portugal, Spain, and Cyprus. Concerns about debt levels were compounded by weaknesses in the Eurozone banking system, slow or negative growth, high unemployment, and persistent trade imbalances within the Eurozone. The financial crisis also became a political crisis, provoking large scale protests and directly or indirectly leading to the fall of several governments in Europe. European leaders and institutions pursued a number of policies to stem the crisis. Many analysts argue that, ultimately, measures by the European Central Bank helped calm market pressure and attenuate the crisis.

Although the acute phase of the Eurozone crisis appears to have subsided, the Eurozone faces many long-term economic challenges, particularly related to growth, unemployment, and high debt levels. Some economists believe that the Eurozone could be heading towards a period of economic stagnation. This includes Germany, which many view as a vital engine of growth for the rest of the Eurozone. A prolonged economic slowdown could have implications for the U.S. economy, and particularly could depress demand for U.S. exports. The launch of T-TIP was in part an effort to stimulate economic growth and expand export opportunities in the region.

Argentina Sovereign Debt Default

In December 2001, a severe financial crisis led Argentina to default on nearly $100 billion in foreign debt owed to private creditors, the IMF, and foreign governments. At the time, it was the largest sovereign default in history. Argentina repaid the IMF in full in 2006 but only reached an agreement to repay the Paris Club creditor governments (including the United States) in May 2014. In terms of debt owed to private creditors, Argentina restructured more than 90% of the debt owed to private bondholders. A small group of private investors, the holdouts, did not participate in the exchanges and have not received any payment from Argentina since the 2001 default. The holdouts, mostly hedge funds that bought the bonds in secondary markets at steep discounts, have pursued litigation to seek full repayment from Argentina, primarily in the United States, since a large proportion of Argentine bonds were issued under New York law. Recent court rulings have been in favor of the holdouts. As a result of the court rulings, U.S. financial institutions legally cannot transfer interest payments from Argentina to holders of the restructured bonds, if Argentina does not also pay the holdouts. Argentina has not paid the holdouts, and in July 2014, funds transferred from Argentina to an intermediary bank could not be disbursed to the holders of the restructured bonds. On July 30, 2014, the credit rating agency Standard and Poor’s


declared Argentina to be in default, for the eighth time in Argentina’s history. Some analysts expect Argentina to reach a settlement with the holdouts in 2015.

In the past, policymakers have been frustrated by Argentina’s reluctance to settle with U.S. bondholders and members of the Paris Club. It remains to be seen how recent events will affect U.S. policy towards Argentina. On one hand, Argentina has taken steps to repay debt owed to the U.S. government, which may cause U.S. policymakers to soften their policy stance towards Argentina. Formalization of the Paris Club deal between Argentina and the United States, for example, is expected to lift restrictions on some types of U.S. assistance to Argentina. On the other hand, tensions between the Argentine government and holdouts may be increasing, which could cause U.S. policymakers to take a stronger stand.

Currency Debates

Some Members of Congress have raised concerns about the exchange rate policies of other countries and how they are impacting the competitiveness of U.S. goods. Generally, Member concerns have focused on the claim that certain countries are using, or have used in the past, various economic policies to “manipulate” or unfairly lower the value of their currency in order to boost exports at the expense of other countries, including the United States. Although concerns have long focused on China, recently attention has also focused on Japan. Japan’s currency, the yen, has depreciated against the U.S. dollar by about 50% between mid-2012 and the end of 2014 following a new set of expansionary monetary policies, similar to the Fed’s quantitative easing programs.

Some economists are skeptical about “currency manipulation” and whether it is a significant problem. They raise questions about whether government policies have long-term effects on exchange rates; whether it is possible to differentiate between “manipulation” and legitimate central bank activities; and the net effect of alleged currency manipulation on the U.S. economy.

Some Members of Congress have called for “currency manipulation” to be addressed either through free-standing legislation (for example, see H.R. 1276 and S. 1114 introduced in the 113th Congress) or in trade negotiations. In 2013, 230 Representatives and 60 Senators sent letters to the Obama Administration calling for currency manipulation to be addressed in trade agreements under negotiation, particularly the TPP. Additionally, addressing currency manipulation is identified as a principal negotiating objective in the proposed TPA legislation introduced in the House and the Senate in January 2014. It is not clear to what extent TPP negotiators are discussing currency issues. The 114th Congress may consider currency issues during debates about TPA and ongoing trade negotiations.

Select CRS Products

Select CRS products follow on key trade and finance issues for the 114th Congress that are discussed in this report. The products take the form of reports or In Focus products, which are two-page executive briefs.

26 Written by Rebecca Nelson, Specialist in International Trade and Finance, x7-6819. See CRS Report R43242, Current Debates over Exchange Rates: Overview and Issues for Congress, by Rebecca M. Nelson; and CRS In Focus IF00045, Debates over “Currency Manipulation” (In Focus), by Rebecca M. Nelson.
Renewal of Trade Promotion Authority

Reports

CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by Ian F. Fergusson.


In Focus

CRS In Focus IF00002, *Trade Promotion Authority (TPA)*, by Ian F. Fergusson

Trade Agreements and Negotiations

Reports


**In Focus**

CRS In Focus IF10000, *Proposed Trans-Pacific Partnership*, by Brock R. Williams and Ian F. Fergusson.

CRS In Focus IF00005, *Proposed Transatlantic Trade and Investment Partnership (T-TIP)*, by Shayerah Ilias Akhtar and Vivian C. Jones.

CRS In Focus IF10002, *The World Trade Organization at 20*, by Ian F. Fergusson.

**U.S.-China Trade and Economic Relations**

**Reports**


**In Focus**


**U.S. Trade Promotion and Financing**

**Reports**

International Trade and Finance: Key Policy Issues for the 114th Congress


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International Property Rights in U.S. Trade Policy

Reports


In Focus


International Investment

Reports


International Finance, Institutions, and Crises

Reports


**In Focus**

CRS Report IF00045, *Debates over “Currency Manipulation” (In Focus)*, by Rebecca M. Nelson.

CRS Report IF00015, *IMF Quota and Governance Reforms (In Focus)*, by Martin A. Weiss.

**Author Contact Information**

Mary A. Irace, Coordinator  
Section Research Manager  
mirace@crs.loc.gov, 7-7679

Brock R. Williams, Coordinator  
Analyst in International Trade and Finance  
bwilliams@crs.loc.gov, 7-1157

Shayerah Ilias Akhtar  
Specialist in International Trade and Finance  
siliasakhtar@crs.loc.gov, 7-9253

Benjamin Collins  
Analyst in Labor Policy  
bcollins@crs.loc.gov, 7-7382

Ian F. Fergusson  
Specialist in International Trade and Finance  
ifergusson@crs.loc.gov, 7-4997

Vivian C. Jones  
Specialist in International Trade and Finance  
vcjones@crs.loc.gov, 7-7823

James K. Jackson  
Specialist in International Trade and Finance  
jjackson@crs.loc.gov, 7-7751

Wayne M. Morrison  
Specialist in Asian Trade and Finance  
wpmorrison@crs.loc.gov, 7-7767

Rebecca M. Nelson  
Specialist in International Trade and Finance  
rnelson@crs.loc.gov, 7-6819

Dianne E. Rennack  
Specialist in Foreign Policy Legislation  
drennack@crs.loc.gov, 7-7608

M. Angeles Villarreal  
Specialist in International Trade and Finance  
avillarreal@crs.loc.gov, 7-0321

Martin A. Weiss  
Specialist in International Trade and Finance  
mweiss@crs.loc.gov, 7-5407
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