International Trade and Finance: Key Policy Issues for the 113th Congress

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Summary

Article I, Section 8, of the U.S. Constitution grants authority over the regulation of foreign commerce to Congress. Congress exercises this authority in a variety of ways, including through the consideration of legislation to approve trade agreements and authorize trade programs and through oversight of trade policy more generally. Policy issues cover such areas as: U.S. trade negotiations; tariffs; nontariff barriers; worker dislocation from trade liberalization, trade remedy laws; import and export policies; international investment, economic sanctions; and the trade policy functions of the federal government. Congress also has an important role in international finance. For example, it has the authority over the level of U.S. financial commitments to international financial institutions and oversight responsibilities over trade- and finance-related agencies of the U.S. Government.

The 112th Congress approved U.S. bilateral free trade agreements (FTAs) with Colombia, Panama, and South Korea, extended the Trade Adjustment Assistance (TAA) programs through December 31, 2013, and reauthorized the Generalized System of Preferences (GSP) through July 31, 2013. In addition, Congress authorized permanent normal trade relations (PNTR) status for Russia and Moldova, reauthorized the U.S. Export-Import Bank, and approved full U.S. participation in general capital increases for the World Bank and four regional development banks. It also conducted oversight of the Eurozone sovereign debt crisis.

The 113th Congress may revisit many of these issues and address new ones. This report provides an overview of key international trade and finance policy issues, including the ones listed below.

- The ongoing Trans-Pacific Partnership (TPP) free trade agreement negotiations.
- Trade Promotion Authority (TPA) and its possible renewal.
- The stalemated WTO Doha Round negotiations and separate new trade liberalizing proposals that some members of the WTO may undertake.
- Oversight of the emerging potential for U.S.-European Union FTA negotiations.
- U.S.-China trade relations including intellectual property rights protection, currency reform, and market access liberalization.
- Renewal of expiring trade programs including GSP and TAA.
- The President’s request for new authority to reorganize and consolidate the business- and trade-related functions of six federal entities, oversight of the recently reauthorized Export-Import Bank, and the Administration’s National Export Initiative.
- Ongoing review of the President’s export control reform initiative and possible renewal of the Export Control Act (EAA), and review of trade sanctions on Iran, Cuba, North Korea, and Syria.
- Reauthorization of U.S. Customs and Border Protection (CBP).
- International finance issues including implications of the ongoing Eurozone debt crisis for the U.S. economy, oversight of international financial institutions, and negotiations to conclude new bilateral investment treaties (BITs).

A list of CRS reports covering each of the issues is provided at the end of the report.
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Policymaking in a Global Economy

The 113th Congress, in exercising both its legislative and oversight responsibilities, faces numerous international trade and finance policy issues. They 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 most Americans. A list of CRS reports covering in detail each of the issues addressed in this report is provided at the end of the report.

International trade and finance issues are complex, and policy deliberation is often made more challenging by developments in the global economy. First, the world continues to recover unevenly from the 2008 global financial crisis, with many developed countries experiencing weak growth compared to large emerging economies. The sovereign debt crisis in Europe and increased vulnerability of the Eurozone are perhaps the most visible examples of developed country economic weakness, which may stagnate or even worsen in 2013. Second, developing country influence and role in the global economy are growing, as witnessed by changing trade and investment patterns, as well as the ascendance of the Group of 20 (G-20) economies as a major forum for international economic cooperation. The rise of China, Brazil, and India, among other emerging economies, presents new challenges in U.S. trade policy and in developing global trade and finance agreements. Third, economic tensions emanating from large international imbalances have not eased.

The U.S. economy is recovering slowly from its worst recession in eight decades. It is experiencing productivity gains and moderate expansion in output, with many economists forecasting faster growth in 2013. Nonetheless, the economy continues to struggle with declining but still high unemployment and a large federal debt. These domestic imbalances are connected to international ones, including the large U.S. trade deficit, rising holdings of U.S. debt by foreign countries, and downward pressure on the dollar. The United States has long consumed more than it has produced, giving rise to the expanding trade deficit, which is financed by capital inflows. The counterpart is large saving balances, trade surpluses, and capital outflows in other countries, including China, Japan, and Germany.

The call for “global rebalancing” implies a reversal of these trends, which would require national and foreign responses. For the United States, this would involve increased saving (less spending) relative to investment that would produce a rise in net exports (reduction in trade deficit). Implicit in this mix, particularly given steady de-leveraging of U.S. firms and households since 2008, is a reduction of the fiscal deficit, the major source of U.S. dissaving since 2000. For trade surplus countries, it implies the opposite—an increase in domestic demand and decrease in saving relative to investment that would lead to a fall in net exports (reduction in trade surplus). Rebalancing also implies changes in relative exchange rates, including a likely depreciation of the dollar against major U.S. trade partner currencies, and appreciation of China’s currency.

On the trade policy side, the 113th Congress will likely review and possibly take up legislation that would lead to reciprocal trade opening agreements, including the Trans-Pacific Partnership (TPP) trade negotiations. President Obama’s National Export Initiative (NEI) continues to

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1 Written by J. F. Hornbeck, Specialist in International Trade and Finance, 7-7782.
promote the goal of doubling U.S. exports in five years as one solution to the challenge of generating faster economic and employment growth. In addition to supporting U.S. companies, the rationale for promoting exports is based on the view that foreign demand is needed to supplement an American consumer still dealing with a residual debt overhang and a federal government facing persistently large fiscal deficits. With an estimated 95% of the world’s population living outside U.S. borders, some view exports as a critical force for the future growth of the U.S. economy. U.S. exports have recovered briskly since 2009. Meeting the goal of doubling exports, however, will be difficult because trade policy by itself is limited in its ability to affect the trade deficit and aggregate output, which will require vibrant global economic growth, a more competitive dollar, and changes in domestic and foreign macroeconomic policies.

Foreign country policies, however, may not align easily with U.S. priorities. The European Union is wrestling with its own financial crisis and possibly another economic downturn, while Japan is mired in persistent slow growth. Large emerging economies, whose recent strong growth represents expanding markets for U.S. goods, may also be turning to less expansionist macroeconomic policies. Many countries, including many G-20 and emerging economies, have returned to industrial policies, backtracking on trade liberalization. So despite U.S. policies directed at export promotion and encouraging macroeconomic changes abroad, U.S. economic recovery still depends on a balance of increased domestic investment and demand, which could worsen the trade deficit if increased saving is not also part of the mix.

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

U.S. international economic policy must also contend with “globalization,” or the increasing 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 tremendous growth in trade, particularly of intermediate goods, which now account for over 60% of the world’s commercial exchange. It has also contributed to rising incomes. In the United States, jobs are supported by U.S. exports to foreign affiliates and U.S. production abroad, as well as foreign firms operating in the United States. These complex production networks further complicate the trade and employment policy debates, and raise other questions such as what

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4 On the tradeoffs and challenges of dealing with the trade deficit, see: CRS Report RL31032, The U.S. Trade Deficit: Causes, Consequences, and Policy Options, by Craig K. Elwell.
constitutes an “American-made” product and how will innovation and production strategies continue to change the economic landscape.

At the same time, while global economic integration has increased trade and economic growth, it has also 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). 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 layoffs and shifts to production abroad, and may raise concerns in Congress over distributional issues of global production and trade.

In short, U.S. costs and benefits linked to an increasingly interconnected global economy may run in many directions. The discussion is no longer simply about free trade versus protectionism. The debate involves 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 maintain its high standard of living by remaining innovative, productive, and internationally competitive, while safeguarding those stakeholders who otherwise may be left behind in a fast-changing global economy, suggesting a strong supporting role for complementary domestic policies. These changes have also raised new trade policy issues, some of which are being discussed in U.S. free trade agreement negotiations.

Congress is in a unique position to address these issues, particularly given its constitutional mandate for legislating and overseeing international trade and financial policy, as discussed below. In addition to the broader congressional oversight of the economic and political context of the current U.S. participation in the global economy, this report highlights major international trade and finance issues that the 113th Congress may address.

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 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 the process, world trade declined rapidly, exacerbating the impact of the Great Depression. Since the 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

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6 Written by William H. Cooper, Specialist in International Trade and Finance, 7-7749.
reduce tariffs within congressionally preapproved levels, and to implement the new tariffs by proclamation without additional legislation. This authority was subject to periodic congressional renewal. Second, Congress enacted the landmark Trade Act of 1974 aimed at opening markets and establishing non-discriminatory international trade rule, and which also required congressional approval for trade agreements that involved changes in U.S. law, including multilateral trade agreements and bilateral and regional free trade agreements. This change responded to the growing role of non-tariff barriers in trade agreement negotiations, and has been amended several times. The statute also included “fast-track trade negotiating” authority, now called trade promotion authority (TPA).

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

Congress has an important role in international finance as well. It has the ultimate authority over the level of U.S. financial commitments to the multilateral development banks (MDBs), including the World Bank, and to the International Monetary Fund (IMF). Congress also 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 impact the U.S. economy, such as the Eurozone sovereign debt crisis.

Policy Issues for Congress

The 112th Congress passed several legislative measures on international trade and finance topics, including bills to implement free trade agreements (FTAs) with Colombia, Panama, and South Korea. Each of those FTAs has subsequently entered into force. The 112th Congress also passed legislation to reauthorize Trade Adjustment Assistance (TAA) and the U.S. Export-Import Bank (Ex-Im), to increase funding for international financial institutions, and to authorize permanent normal trade relations status (PNTR) for Russia and Moldova. In addition, the 112th Congress approved extensions to three trade preference programs: the Generalized System of Preferences (GSP); the Andean Trade Preference Act (ATPA); and a “third-country fabric” provision in the African Growth and Opportunity Act (AGOA).

Many of these policy issues, as well as new ones, may come before the 113th Congress, which may face issues that range from those with implications for overarching trade and economic policies to more narrow customs, tariff, and appropriations issues. Some of the more significant ones are discussed below.

Renewal of Trade Promotion Authority (TPA)?

The President may request and the 113th Congress may consider renewal of TPA. TPA allows implementing bills for trade agreements to be considered under expedited legislative

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7 Written by William H. Cooper, Specialist in International Trade and Finance, 7-7749.
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 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. Since first enacted in the Trade Act of 1974, TPA has been renewed multiple times, with the latest temporary grant of authority expiring on July 1, 2007.

In light of TPA's special provisions governing trade agreement implementing bills, many consider its renewal as 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 Trans-Pacific Partnership (TPP) free trade agreement negotiations, an International Services Agreement (ISA), and the expansion of the Information Technology Agreement (ITA). It can also be argued that while 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 legislative negotiating objectives for trade agreements, which have been an important part of previous TPA/fast-track authorities.

Trade Agreements and Negotiations

Historically, the United States has pursued trade agreements to eliminate barriers to trade and establish non-discriminatory rules of exchange. Among the trade issues for the 113th Congress are U.S. negotiations with the TPP countries—now 11 countries and possibly more—to create a comprehensive and high-standard regional FTA. Furthermore, Members may examine the future of the stalled WTO Doha Round and new negotiating proposals. In addition, Congress is likely to monitor the Administration’s trade liberalizing initiatives with the Middle East and North Africa region and with the European Union.

Trans-Pacific Partnership (TPP) FTA

The TPP is an evolving regional FTA, which 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 states. The TPP was originally an FTA concluded in 2006 among Singapore, New Zealand, Chile, and Brunei. Subsequently, the United States, Australia, Peru, and Vietnam joined the negotiations in the fall of 2008 (during the Bush Administration). President Obama endorsed the negotiations in November 2009, and Malaysia joined as a full participant in October 2010. After intensive consultations with TPP participants during the first half of 2012, Canada and Mexico became full participants at the 15th round of negotiations in Auckland, New Zealand, in December 2012. Japan and Thailand, and other countries, have also expressed interest in joining the negotiations.

8 Written by Ian F. Fergusson, Specialist in International Trade and Finance, 7-4997.
The TPP is a potentially important trade agreement. In 2011, the TPP negotiating partners made up 31% total U.S. total trade in goods and services. TPP negotiations aim to eliminate tariffs and non-tariff barriers to create a comprehensive and high standard FTA to which other nations can accede. The participants are also discussing new trade issues, such as supply chain management, state-owned enterprises (SOEs), regulatory coherence, and the participation of small and medium-sized enterprises to create what the Obama Administration refers to as a “21st century trade agreement.” Certain aspects of the negotiations have proven controversial. These include select market access issues, such as agriculture, textiles, and apparel, as well as the level of intellectual property protection, the enforcement of labor and environmental rights, the treatment of state-owned enterprises, and access to government procurement.

President Obama and other TPP leaders have declared their intention to conclude the negotiations by October 2013. Congress has a direct legislative interest in the progress of the negotiations because historically under the TPA statute, it has defined trade agreement negotiating objectives, provided the President with authority to enter into the trade agreement, and defined the legislative procedures under which it will consider a trade agreement implementing bill. Should TPP negotiations conclude in 2013, the 113th Congress may take up an implementing bill for the agreement.

The WTO and WTO Doha Round

The World Trade Organization (WTO) is an international organization that administers the trade rules and agreements negotiated by 157 participating parties—with Montenegro, Russia, Samoa, and Vanuatu becoming members in 2012—and 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 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 entered its 12th year of negotiation. 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 non-tariff barriers, services, and trade remedies. Partly as a result of being labeled a “development round” to entice developing countries to participate in the first place, developing countries (including emerging economic powerhouses such as China, Brazil, and India) have sought the reduction of agriculture tariffs and subsidies among developed countries, non-reciprocal market access for manufacturing sectors, and protection for their services industries. Developed countries have sought increased access to developing countries’ industrial and services sectors, while attempting to retain some measure of protection for their agricultural sectors. Given the differences, which were not meaningfully resolved by the 8th Ministerial of the WTO in December 2011, there is frustration over the ability of WTO members to reach a comprehensive Doha Round agreement.

Despite the lack of agreement on existing issues at the December 2011 Ministerial, some observers have suggested that the WTO should start to address trade-related challenges in such subjects as the digital economy, climate change, food security, exchange rates, and energy in

9 Written by Ian F. Fergusson, Specialist in International Trade and Finance, 7-4997.
order to maintain relevancy in a changing policy environment. While no decision was made to adopt a work program on these issues, a revamped plurilateral government procurement agreement was agreed to by 42 member states (including the 27 members of the European Union) at the Ministerial. Also, several countries, including China, are in negotiations to accede to the Government Procurement Agreement (GPA).

In addition, work has started on expanding the reach of the current WTO agreements outside the scope of the Doha Round. A group now composed of 46 developed and advanced developing countries began negotiating a possible framework for a plurilateral agreement that would liberalize and expand disciplines in services trade beyond the WTO’s General Agreement on Trade and Services (GATS). Negotiations to expand the scope of the current plurilateral Information Technology Agreement (ITA) have also been proposed and efforts continue to “harvest” some parts of the Doha Round, such as on trade facilitation. The 9th Ministerial of the WTO is scheduled to take place on December 3-6, 2013.

Potential U.S.-European Union Trade Agreement Negotiations

The United States and the European Union (EU) share a large, dynamic, and mutually beneficial trade and economic relationship. However, concerns about slow growth, job creation, and increased competition from emerging markets have prompted calls from stakeholders on both sides of the Atlantic for renewed focus on reducing and eliminating remaining barriers to their trade and investment. Following the EU-U.S. Summit in November 2011, the Transatlantic Economic Council (TEC) established a High-Level Working Group on Jobs and Growth. Led by U.S. Trade Representative Ron Kirk and EU Trade Commissioner Karel de Gucht, the Working Group was tasked with assessing options for strengthening the U.S.-EU trade and investment relationship. The Working Group issued an interim report in June 2012, which stated that, if achievable, a “comprehensive agreement that addresses a broad range of bilateral trade and investment policies” would provide the most significant benefit to the transatlantic relationship. U.S. and EU leaders issued a joint statement welcoming the interim report’s findings. A final report is expected in early 2013 and trade agreement negotiations may be launched.

Issues in a potential new trade agreement initiative might include tariff reduction and elimination, regulatory compatibility and standards, improving market access for services, investment protection, improved access to government procurement opportunities, intellectual property rights protection and enforcement, and greater agricultural market access. New “21st century” issues also could be addressed in areas such as trade facilitation, state-owned enterprises (SOEs), and supply chains. Certain issues, notably regulatory compatibility, have been contentious in previous transatlantic dialogues, and some question the likelihood of resolving these issues now. Others suggest that economic and political factors have aligned to improve chances of political and public support for possible FTA negotiations.

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10 Written by Shayerah Ilias, Specialist in International Trade and Finance, 7-9253. Language draws from works by Raymond J. Ahearn, Specialist in International Trade and Finance, x7-7629.
Possible options for the contours of transatlantic trade negotiations range from a comprehensive and traditional free trade agreement to parallel and separate negotiations in areas such as elimination of tariffs on trade in goods, liberalization of services trade and foreign investment restrictions, and reduction of regulatory barriers. The United States and the EU also could consider alternative mechanisms for transatlantic issues, including intensified regulatory cooperation; negotiation of a transatlantic bilateral investment treaty; and sector-specific initiatives.

EU-U.S. trade relations are likely to be among the key policy issues confronting the 113th Congress, with possible close examination of the Working Group recommendations. Congress could examine the impact of greater transatlantic trade liberalization on U.S. economic growth; the future of U.S. trade policy and other FTA negotiations (such as the ongoing TPP trade negotiations); efforts to promote solutions to issues related to third countries (such as SOEs); and trade liberalization through multilateral negotiations (such as in the WTO). Should FTA negotiations commence, the congressional role would include consultations with U.S. negotiators on and oversight of the negotiations, and eventual consideration of legislation to implement the final trade agreement.

U.S. Trade and Economic Engagement with the Middle East and North Africa

In light of the political changes taking place in the Middle East and North Africa (MENA), the U.S. government has been considering ways to expand U.S. trade and investment with countries in the region, which could help foster economic growth and provide support for successful democratic transitions. However, the ongoing political turmoil and security issues in the region may prompt greater scrutiny of U.S. engagement, as policymakers grapple with questions of timing, feasibility, and political support for such efforts.

A key part of the Administration’s trade and economic engagement is the MENA “Trade and Investment Partnership Initiative” (MENA-TIP), announced by President Obama in May 2011. The objectives of the initiative are to facilitate trade within the region; promote greater trade and investment with the United States and with other global markets; and “open the door to willing and able MENA partners—particularly those adopting high standards of reform and trade liberalization—to construct a regional trade arrangement.” As part of the MENA-TIP, the United States, Egypt, Jordan, Morocco, and Tunisia have agreed to focus cooperation initially on investment, trade facilitation, support for small- and medium-sized enterprises, and regulatory practices and transparency.

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13 Written by Shayerah Ilias, Specialist in International Trade and Finance, 7-9253.
The MENA-TIP could build on previous U.S. trade policy initiatives in the region, including the Middle East Free Trade Area Initiative (MEFTA).\(^\text{18}\) It also could build on other forms of economic engagement the United States is currently pursuing or considering, including debt relief for Egypt; enterprise funds for Tunisia, Egypt, and Jordan; and international financing through the “Deauville Partnership with Arab Countries in Transition.” Launched by the G-8 in May 2011, the Deauville Partnership aims to coordinate international financing to help support countries in the region undergoing democratic transitions. It includes Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.\(^\text{19}\)

U.S. trade and economic engagement with the MENA region may be of continuing interest for the 113\(^{th}\) Congress. In addition to monitoring ongoing U.S. efforts to implement the MENA-TIP, Congress could consider a number of policy approaches—some of which were raised in the 112\(^{th}\) Congress\(^\text{20}\)— for bolstering trade and investment ties with some transitioning countries. Possible approaches include maintaining the status quo until the impact of the political changes in the region is clearer, creating enhanced U.S. trade preferences for U.S. imports from MENA countries, increasing assistance from U.S. federal export promotion and financing agencies to the region, and exploring new bilateral trade agreements with countries in the region, such as Egypt and Tunisia.

Consideration of such approaches may prompt legislative debates about the effectiveness of U.S. policy tools in promoting increased trade and investment, as well as their impact on political transitions, and how quickly the benefits of these policy options would be borne out. In a tight budget environment, trade and investment may be attractive policy tools for supporting MENA economies compared to other options, such as foreign aid, while also potentially creating new economic opportunities for U.S. exporters.

**China\(^\text{21}\)**

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 an estimated $536 billion in 2012. China is currently the United States’ second-largest trading partner, its largest source of imports, and its third largest export market. China’s large population and rapidly growing economy make it a potentially huge 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, many of which use China as the final point of assembly for their products. In addition, China’s large-scale holdings of U.S. Treasury securities ($1.2 trillion as of


\(^{21}\) Written by Wayne M. Morrison, Specialist in Asian Trade and Finance, 7-7767.
September 2012) have helped the federal government finance its budget deficits, thereby helping to keep U.S. real interest rates relatively low.

Despite the significant benefits, bilateral economic ties have become increasingly strained over a number of issues. Many of these relate to China’s incomplete transition to a market economy and efforts by the Chinese government to accelerate the country’s transformation to a developed economy through the use of distortive policies that attempt to promote (e.g., subsidies) and protect (e.g., trade and investment barriers) Chinese firms, especially state-owned enterprises (SOEs). The 113th Congress is likely to examine U.S.-China trade relations on an ongoing basis, including some or all of the issues discussed below.

**Industrial Policies**

Numerous policies have been implemented by China to promote the development of domestic industries deemed critical for its future economic growth. China’s primary goals include transitioning from a manufacturing center to a major global source of innovation, and sharply 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.

Many U.S. firms have also complained about Chinese pressure to establish production facilities in China, share technology with Chinese partners, or set up R&D centers as a condition for gaining market access. In 2011, U.S. Treasury Secretary Timothy Geithner reiterated this charge and a 2012 survey by the American Chamber of Commerce (AmCham) in China reported that 33% of its respondents stated that technology transfer requirements were negatively affecting their businesses. President Obama raised the issue with then-Chinese Vice President (now President) Xi Jinping in a meeting on February 14, 2012, and shared in a White House Factsheet that “China reiterates that technology transfer and technological cooperation shall be decided by businesses independently and will not be used by the Chinese government as a pre-condition for market access.” However, concerns remain that China will continue these practices. The Obama Administration has initiated WTO dispute settlement cases against a number of Chinese industrial policies, including China’s export subsidies to auto and auto parts (September 2012), export restrictions on rare earth elements (March 2012), preferential subsidies given to Chinese wind power equipment manufacturers (December 2010); and export restrictions on certain raw materials manufacturers in China (June 2009).

**Intellectual Property Rights Protection**

Lack of effective and consistent protection and enforcement in China of U.S. IPR have been cited by U.S. firms as one of the most significant problems they face in doing business in China. Although China has significantly improved its IPR protection regime over the past few years,

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U.S. industry officials complain that piracy rates in China remain unacceptably high. A 2012 AmCham China survey found that 79% of respondents felt that China’s IPR enforcement regime was ineffective.24 A study by the U.S. International Trade Commission estimated that U.S. intellectual property-intensive firms that conducted business in China lost $48.2 billion in sales, royalties, and license fees in 2009 because of IPR violations.

U.S. business and government representatives have voiced growing concern over economic losses suffered by U.S. firms as a result of cyber attacks, many of which are believed to originate in China. According to a report by the U.S. Office of the Director of National Intelligence (DNI), “Chinese actors are the world’s most active and persistent perpetrators of economic espionage.” U.S. private sector firms and cyber security specialists have reported an onslaught of computer network intrusions that have originated in China, but the intelligence community cannot confirm who was responsible.25

An Undervalued Currency

Since 1994, the Chinese government has maintained a policy of intervening in currency markets to limit the appreciation of its currency, the renminbi (RMB), against the U.S. dollar. Critics charge that this policy has made Chinese exports to the United States significantly less expensive and U.S. exports to China more expensive than would otherwise be the case. Many contend that this policy acts as a subsidy for Chinese exports to the United States, while imposing a trade barrier to U.S. exports to China and that this practice is a major cause of the large annual U.S. bilateral trade deficits and the extensive loss of U.S. manufacturing jobs. In addition, some economists claim that China’s currency policy induces other countries to intervene similarly in currency markets.

Several bills were introduced in the 112th Congress that sought to address China’s currency policy, and debate continues over the merits, as well as their possible negative repercussion on the United States with respect to its WTO commitments. Some argue that any effort to induce China to appreciate its currency more rapidly would likely do little to boost the U.S. economy in the short run, while proponents argue they may, nonetheless, be necessary. According to the Department of the Treasury, the RMB appreciated by 9.3% against the dollar from June 2010 through November 9, 2012, and by 12.6% on a real (inflation-adjusted) basis. Since 2005, the RMB has appreciated by 40% in real terms.26 Still, some U.S. officials note that China’s dollar exchange rate changed little in 2012.

Chinese Economic 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 fixed investment and increase the importance of 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 SOEs). 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.

Challenges for the 113th Congress

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

China’s continued economic rise and U.S.-China trade relations will likely be closely monitored by the 113th Congress. Some Members may press the Administration to boost efforts to induce China to abide more fully by its WTO commitments, including bringing more trade dispute settlement cases in the WTO. They may also introduce new bills that seek to address China’s currency, industrial, and IRP protection policies.

Reorganization of Federal Trade-Related Agencies

U.S. policymakers’ interest in the organizational structure of U.S. government trade agencies has grown in recent years, stimulated by federal efforts to promote U.S. exports and employment through the National Export Initiative, as well as national debates on reducing federal spending and the size of the U.S. government. In early 2012, President Obama submitted a proposal seeking authority to reorganize and consolidate the business- and trade-related functions of six federal entities—Department of Commerce, Export-Import Bank (Ex-Im Bank), Overseas Private Investment Corporation (OPIC), Small Business Administration (SBA), Trade and Development Agency (TDA), and Office of the United States Trade Representative (USTR)—into one department. In the 112th Congress, bills based on the proposal were introduced in the Senate (S. 2129) and the House (H.R. 4409). The President may resubmit his request for reorganizational authority in the 113th Congress.

The trade reorganization proposal has rekindled long-standing policy debates. On the one hand, proponents of consolidation proposals believe that they may eliminate duplication of federal trade functions, provide a more streamlined rationale for U.S. export promotion services and reduce costs of U.S. trade policy programs. On the other hand, critics contend that such proposals could result in the creation of a large, costly federal bureaucracy and undermine the effectiveness of key agencies, such as the Office of the United States Trade Representative. They also assert that the

27 Written by Shayerah Ilias, Specialist in International Trade and Finance, 7-9253.
diffusion of trade functions across federal government agencies helps to advance various aspects of U.S. trade policy, such as small- and medium-sized or agricultural exporters.

Separately, the Administration has engaged in other efforts, within its existing authority, to improve the effectiveness and efficiency of federal trade functions. For example, the Administration has created new coordinating bodies, such as the Interagency Trade Enforcement Center and the Interagency Task Force on Commercial Advocacy. In addition, the Administration is reviewing a proposal to reorganize the International Trade Administration (ITA) of the Department of Commerce, possibly by consolidating two units of the ITA—the U.S. and Foreign Commercial Service unit and the Manufacturing Access and Compliance unit.

Members of Congress will likely play a significant role in any trade reorganization debate. Congress could conduct oversight, engage in consultations with the Administration, hold hearings, grant reorganizational authority to the President, and/or introduce and enact trade reorganization legislation separate from the President’s plan. Trade reorganization—whether large-scale or restricted to individual agencies, such as the ITA—could be controversial from the standpoint of congressional committee jurisdiction, given the fact that multiple committees have jurisdiction over the trade-related agencies that could be included in a possible reorganization.

**U.S. Export and Investment Promotion**

In addition to negotiating agreements to open markets by eliminating barriers to U.S. trade, the U.S. government promotes exports and investment by providing credit, finance, and insurance programs that are administered by the Export-Import Bank (Ex-Im Bank), the Department of Agriculture, and the Overseas Private Investment Corporation (OPIC). In addition, the Department of Commerce promotes U.S. exports of goods and services, particularly by small and medium-sized companies, and inward investment into the United States. Federal export promotion has been elevated with the Obama Administration’s introduction of the National Export Initiative (NEI) in the 2010 State of the Union Address.

**National Export Initiative (NEI)**

Launched by the Obama Administration, the NEI is a strategy for doubling U.S. exports by the end of 2014 to support U.S. jobs through: improved coordination and funding of federal export promotion activities; greater U.S. export financing; enhanced government advocacy on behalf of U.S. exporters; negotiation of new trade agreements; and more robust enforcement of existing trade agreements. The NEI established an Export Promotion Cabinet (EPC), which includes

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30 Written by Shayerah Ilias, Specialist in International Trade and Finance, 7-9253.

Secretaries or Directors of key federal agencies involved in export promotion, to coordinate with the existing Trade Promotion Coordinating Committee (TPCC) in implementing the NEI.\footnote{Report to the President on the National Export Initiative: The Export Promotion Cabinet’s Plan for Doubling U.S. Exports in Five Years, Washington, DC, September 2010. The inter-agency TPCC was established by executive order in 1993 to coordinate the export promotion and export financing activities of the executive branch.}

Under the NEI, federal agencies have increased their export assistance activities, including government-to-government commercial advocacy, trade missions, and export financing. Despite the rise in U.S. exports since 2010, there is some debate over the effectiveness of the NEI. Some policymakers welcome its high-level focus on export promotion. Others contend that the NEI amounts to bureaucratic reorganization and fails to address shortcomings in federal efforts and others argue that the NEI’s focus on direct forms of export assistance will have only marginal effects on export levels. They encourage the Administration to focus more on broader trade and macroeconomic policy issues that may be more effective in boosting exports such as: negotiating and enforcing U.S. free trade agreements; reducing foreign trade barriers; addressing foreign currency intervention; and working to rebalance the global economy.

The 113\textsuperscript{th} Congress could conduct oversight and legislate on a number of export promotion issues related to the NEI, including: the effectiveness of the NEI and federal agencies involved in boosting U.S. exports; the authorities of appropriations for federal agencies with export promotion functions; federal efforts to coordinate export promotion efforts; and, proposals to reorganize federal trade functions.

### Reauthorization of the Export-Import (Ex-Im) Bank and Overseas Private Investment Corporation (OPIC)\footnote{Written by Shayerah Ilias, Specialist in International Trade and Finance, 7-9253.}

Ex-Im Bank and OPIC are two core federal agencies involved in export promotion. Ex-Im Bank, the official export credit agency (ECA) of the U.S. government, provides direct loans, guarantees, and insurance to help finance U.S. exports when the private sector is unable or unwilling to do so. OPIC supports U.S. economic and foreign policy objectives by providing political risk insurance and finance in support of U.S. investment in developing countries. Both agencies are self-sustaining; they use offsetting collections, generated from fees charged for their services and other sources, to fund their activities. Congress, as part of its legislative responsibilities, approves an annual appropriation that sets an upper limit on each of the agencies’ administrative and program expenses.

Congress has responsibility for reauthorizing Ex-Im Bank and OPIC. The 112\textsuperscript{th} Congress passed the Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122), which extended Ex-Im Bank’s authority through FY2014, raised the bank’s lending authority from $100 billion limit to $140 billion in FY2014 and required increased bank reviews of lending operations, among other provisions. In addition, it requires Ex-Im Bank to conduct international negotiations to reduce and eliminate official export credit activity\footnote{In 2006, Congress had extended the Bank’s authority through September 30, 2011 (P.L. 109-438) and since then, had extended its authority through appropriations vehicle.} The 113\textsuperscript{th} Congress could conduct oversight of the Ex-Im Bank’s implementation of these requirements.
The most recent stand-alone reauthorization of OPIC was through the Overseas Private Investment Corporation Amendments Act of 2003 (P.L. 108-158), which reauthorized OPIC through November 1, 2007. Since then, Congress has extended OPIC’s authority through appropriations. The FY2013 continuing resolution extends OPIC’s authority through March 27, 2013. From an operational standpoint, some argue that OPIC would benefit from a multi-year or permanent authorization, which may enhance OPIC’s capacity for long-term planning and ability to provide assurances to investors about OPIC programs. Others argue that frequent reauthorizations allow greater opportunity for congressional oversight of OPIC’s activities.

Ex-Im Bank and International Export Credit Financing

Many countries, including the United States through Ex-Im Bank, conduct government-backed export financing through entities known as export credit agencies (ECAs), especially when it is perceived that the market has failed to offer adequate financing. The Organization for Economic Cooperation and Development (OECD) is the primary international organization guiding and monitoring officially backed export credit activity. The OECD Arrangement on Officially Supported Export Credits (“the OECD Arrangement”), created in 1978, established limitations on the terms and conditions for official export credit activity of OECD member countries.

In recent decades, there has been a growth in export credit financing that is not regulated by the OECD Arrangement. Certain OECD member countries are conducting unregulated export credit financing through “market windows” and untied lending support.35 However, perhaps a bigger shift in the landscape is due to the export credit financing by non-OECD countries such as China, Brazil, and India—financing that is not subject to export credit disciplines under the OECD. Although most of the non-OECD ECAs core programs appear to “operate within or close to OECD parameters, some of these programs—especially in China—appear to consistently operate with a financial edge over standard OECD financing.”36 However, it is difficult to confirm the export credit financing terms and conditions of non-OECD countries with any certainty.

The changing international export credit financing landscape could raise questions about U.S. exporters’ competitiveness in foreign markets. In some cases, U.S. firms that otherwise are fully competitive producers may face competition over financing terms that are subsidized. The United States has been engaged in negotiations through the OECD on export credit financing issues. More recently, the United States has launched efforts to negotiate export credit guidelines with China. In February 2012, the United States and China announced that they would establish an international working group composed of export financing providers with the goal of completing

35 A “market window” is a government-owned entity or program that offers export credits on market terms. Market windows generally do not operate on purely commercial terms, as they tend to receive benefits from their government status that commercial lenders cannot access. Market windows lie outside of the purview of the OECD Arrangement. Countries that operate market windows include Canada, Germany, and Italy; the United States does not have one. According to the OECD, “untied aid is Official Development Assistance [ODA] for which associated goods and services may be fully and freely procured in substantially all countries.” Because the untied loan is not tied to exports, it is not subject to the OECD export credit guidelines. Source: U.S. Ex-Im Bank, 2011 Competitiveness Report, and OECD, Glossary of Key Terms and Concepts.

a new set of export credit guidelines by 2014.\textsuperscript{37} It is unclear if membership in the working group would include major providers of official export credit financing that are not a part of the OECD, such as Brazil and India.

The 2012 Ex-Im Bank reauthorization act (P.L. 112-122) requires the United States to negotiate with other major countries, including OECD members to substantially reduce—with the ultimate goal of eliminating subsidized export financing and other forms of export subsidies. The 113th Congress could examine such negotiations, both within the OECD and separately, such as the U.S. engagement with China.

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 113\textsuperscript{th} 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\textsuperscript{38}

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 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. Former Defense Secretary Robert M. Gates announced key elements of the Administration's agenda for reform in a speech on April 20, 2010, and later proposed 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, 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. An Export Enforcement Coordination Center, which was created by executive order on November 9, 2010, has been set up within the Department of Homeland Security to synchronize


\textsuperscript{38} Written by Ian F. Fergusson, Specialist in International Trade and Finance, 7-4997.
enforcement efforts. An integrated information technology system based on the Defense Department’s USXports platform is being adopted by the Departments of State and Commerce.

In the 113th Congress, Members may scrutinize this effort through oversight and may be asked to approve certain changes proposed by the Administration. Congressional notification is required if items are moved from the munitions list to the dual-use list; the manner by which this notification is accomplished reportedly is being negotiated by the Administration and the congressional committees of jurisdiction. The creation and placement of the proposed licensing agency may require legislation.

Legislation to renew or rewrite the EAA was introduced in the House of Representatives during the 112th Congress. The Export Administration Act Renewal Act of 2012 (H.R. 2122), introduced in the 112th Congress, would have renewed the 1979 EAA until 2015, provided enhanced penalty and enforcement authority, provided for congressional review of export control regulations, toughened Iran sanctions, and authorized differential treatment of parts and components on the USML. A second bill, the Technology Security Act of 2011 (H.R. 2004), would have rewritten the EAA, vesting the President with the authority to control exports for national security, foreign policy, proliferation, terrorism, or disruption of critical infrastructure reasons under certain guidelines. Versions of these bills, or others, may be introduced in the 113th Congress.

In addition, the House version of the National Defense Authorization Act for FY2013 contained provisions to permit the President to determine the export control jurisdiction of commercial communications satellites and related components. The language of similar Senate legislation was expected to be considered in the conference between those two bills.

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, international terrorism, religious freedom, proliferation of weapons of mass destruction, international narcotics trafficking, trafficking in persons, high seas piracy, corruption, money laundering, child abduction, and child soldiers. The United States currently maintains robust sanctions regimes against foreign governments it has identified as supporters of acts of international terrorism (Cuba, Iran, Sudan, and Syria), nuclear arms proliferators (Iran, North Korea, Syria), and egregious violators of international human rights standards (Burma, Cuba, Iran, North Korea).

The 113th Congress will likely examine the President’s implementation of economic sanctions requirements enacted in the 112th Congress pertaining to weapons proliferation programs in Iran, North Korea, and Syria, and rule of law matters in Russia. Legislation might be required to move toward normalizing trade relations with Burma, support progress in the contentious Sudan-South Sudan border, to consider economic agreements as a way to leverage U.S. influence throughout North Africa and the Middle East, and to sustain or modify the decades-long sanctions regime the United States has maintained on Cuba.

39 Written by Dianne E. Rennack, Specialist in Foreign Policy Legislation, 7-7608.
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 open markets rests on the view that they yield substantial economic benefits. Decisions to deviate from that rationale can be sanctioned by international trade rules that provide specific groups recourse to petition the government for temporary protection if they can show that they have been injured by certain kinds of “fair” and “unfair” competition. Additionally, efforts to forge closer economic and political ties with developing regions and countries may also lead to more open policies through the extension of preferential access to the U.S. market. Congress has responsibility for five basic import policy areas: (1) trade remedies; (2) trade preferences; (3) border security and trade facilitation; (4) miscellaneous tariff bills; 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 relief from import surges of fairly traded goods. These laws are enforced primarily through the administrative procedures of two U.S. government agencies, the Department of Commerce (DOC) and the International Trade Commission (ITC). In AD and CVD cases, the remedy is an additional duty assessed to offset the calculated amount of dumping or subsidy. In safeguard cases that are determined by the President, an import quota or a tariff may be assessed. In addition, the WTO has specific agreements and rules on these measures to which its member countries, including the United States, adhere.

One issue that may emerge in the 113th Congress relates to the alleged under-collection of AD and CVD duties, which continues to be a priority trade issue. U.S. Customs and Border Protection (CBP) has responsibility for collecting duties. Legislation could be considered in the 113th Congress seeking to further prevent importers from circumventing these duties, either as a stand-alone bill or as part of a package to reauthorize CBP, an initiative begun in the 112th Congress. Second, many, including some in Congress, have asserted that China’s policy of intervening in currency markets to limit the appreciation its currency, the renminbi (RMB), against the U.S. dollar is intended to make its exports significantly less expensive than competing U.S. goods. The 113th Congress could see legislative proposals similar to bills introduced in the 112th Congress seeking to direct administrative officials to treat currency misalignment (or undervaluation) as a subsidy in U.S. countervailing duty investigations.

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40 Written by Vivian C. Jones, Specialist in International Trade and Finance, 7-7823.
Trade Preferences

Since 1974, Congress has created five trade preference programs designed to assist “lesser developed” countries: 1) the Generalized System of Preferences (GSP), which applies to all eligible developing countries; 2) the Andean Trade Preference Act (APTA); 3) the Caribbean Basin Economic Recovery Act (CBERA); 4) the Caribbean Trade Partnership Act (CBTPA); 5) the African Growth and Opportunity Act (AGOA); and 6) the Haitian Opportunity through Partnership Encouragement (HOPE) Act. Except for CBERA, which is permanent, these programs give temporary, non-reciprocal, 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, and in 2013 may address two expiring programs, GSP and APTA.

The 111th Congress approved extensions of the CBTPA and provided more flexible and generous tariff preferences for Haiti through September 30, 2020. The 112th Congress approved extensions of the GSP (P.L. 112-40) and APTA (P.L. 112-42) programs through July 31, 2013, including a third-country fabric provision. In addition, Congress extended until 2015 a provision in AGOA that allows eligible countries to use fabrics from any country to make a limited amount of apparel that is eligible for duty-free entry into the U.S. market (P.L. 112-163). Since the GSP and APTA programs expire in mid-2013, legislation extending and/or revising these preference programs could be introduced in the 113th Congress. Colombia’s status as a beneficiary country under APTA expired upon entry into force of the U.S.-Colombia FTA and Bolivia has been dropped from the program. Because Ecuador is the only remaining designated beneficiary country, there is some question as to whether the 113th Congress will extend APTA or allow it to expire.

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

Trade facilitation aims to improve the efficiency of international trade by harmonizing and streamlining customs procedures, such as duplicative documentation requirements, customs processing delays, and non-transparent or unequally enforced importation rules and requirements. Congress may consider legislation to reauthorize U.S. Customs and Border Protection (CBP)—providing CBP with additional authority and responsibility to expedite the processing of legitimate trade and transportation at U.S. ports of entry, among other provisions. Bills introduced in the 112th Congress may provide a framework for CBP legislation that could emerge in the 113th Congress.

Efforts to streamline trade facilitation procedures as part of the WTO Doha Round were supported by many WTO members. Although the Doha Round is currently at an impasse, some WTO members have continued negotiations on individual parts of the negotiating mandate, including trade facilitation. Some WTO members have favored the possibility of finalizing trade facilitation negotiations so that an agreement could be presented as part of a package of “deliverables” at the 9th WTO Ministerial Conference in December 2013. If WTO members reach consensus on a trade facilitation agreement, the 113th Congress could consider its approval.

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42 Written by Vivian C. Jones, Specialist in International Trade and Finance, 7-7823.
43 This AGOA program is known as the “third-country fabric provision.”
44 Written by Vivian C. Jones, Specialist in International Trade and Finance, 7-7823.
Oversight into CBP efforts to enhance cargo security may also receive congressional attention as part of or separate from consideration of a possible CBP reauthorization package. For example, the SAFE Port Act (P.L. 109-347), as amended, included a statutory mandate to scan all U.S. maritime cargo with non-intrusive 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 the focus of additional legislation in the 113th Congress.

**Miscellaneous Tariff Bill (MTB)**

Many Members of Congress often introduce bills that support importer requests for the temporary suspension of tariffs on chemicals, raw materials, or other non-domestically made components 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 price competitive. Due to the large number of bills, they are often packaged together in a broader miscellaneous tariff bill. The United States Manufacturing Enhancement Act of 2010 (P.L. 111-227) enacted on August 11, 2010, is the most recent generated MTB. It expired on December 31, 2012.

Legislation could emerge in the 113th Congress proposing to renew these duty suspensions and enact new ones. It is also possible, however, that because of past congressional moratoriums on “earmarks,” which include measures to provide “limited tariff benefits,” including duty suspensions, consideration of an MTB bill may be controversial. Some Members have also called for modifying the way in which MTBs are currently crafted by shifting much of the task of assembling and vetting the bill to the International Trade Commission or another agency. Thus, legislation could emerge in the 113th Congress seeking to make procedural changes to the MTB process.

**Trade Adjustment Assistance**

Congress created Trade Adjustment Assistance (TAA) in the Trade Expansion Act of 1962 to help workers and firms adjust to dislocation that may be caused by increased trade liberalization. It is justified now, as it was then, 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 while bolstering freer trade and diminishing prospects for potentially costly tension (retaliation) among trade partners. As in the past, critics debate the

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46 The SAFE Port Act was amended by P.L. 110-53, §1701. This mandate may be postponed for a certain port or ports in two-year increments by the Secretary of Homeland Security if certain conditions are met.

47 Letter from Janet Napolitano, Secretary of Homeland Security, to Hon. Joseph I. Lieberman, Senator, May 2, 2012. In her notification to Congress, Secretary Napolitano cites “diplomatic, financial, and logistical” obstacles to implementing a 100% scanning system. Pursuant to § 232(b)(4) of the SAFE Port Act, as amended, Secretary Napolitano identified two conditions which necessitated the deadline extension: that the use of systems to scan containers would have significant and negative impact on trade capacity and cargo flows, and that systems to scan containers cannot be purchased, deployed, or operated at overseas ports due to limited physical infrastructure.

48 Written by Vivian C. Jones, Specialist in International Trade and Finance, 7-7823.

49 Written by J. F. Hornbeck, Specialist in International Trade and Finance, 7-7782. For a more detailed discussion, see CRS Report R41922, *Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy*, by J. F. Hornbeck and Laine Elise Rover.
merits of TAA on equity, efficiency, and budgetary grounds. Democratic leaders and the Obama Administration, however, considered TAA renewal essential for passage of three implementing bills for free trade agreements (FTAs) with Colombia, Panama, and South Korea. With this understanding, Congress reauthorized TAA and the FTAs with bipartisan support. President Obama signed the TAA bill into law on October 21, 2011 (P.L. 112-40).

The TAA bill reauthorized the workers, firms, and farmers programs through December 31, 2013, but discontinued TAA for communities because it was considered duplicative of other federal programs. Many, but not all, of the enhanced programs passed in an earlier (2009) reauthorization were continued, retaining eligibility for services workers and firms, increasing income support for workers undergoing job training, raising the Health Coverage Tax Credit, expanding funding for training benefits, and reestablishing more detailed program evaluation and reporting requirements. Funding was reduced for job search, relocation assistance, and wage insurance for older workers, and eligibility for public sector workers was discontinued. The firms and farmers TAA programs were reauthorized at annualized levels of $16 million and $90 million, respectively, much less than the 2009 authorized levels, but equal to current (and historical) appropriated levels. Congress will likely consider a TAA bill given that the programs are set to expire at the end of 2013.

Intellectual Property Rights (IPR) in U.S. Trade Policy

The international protection and enforcement of IPR, such as patents, copyrights, and trademarks, internationally is a major component of U.S. trade policy, due to the importance of IPR to the U.S. economy and the potentially negative commercial, health and safety, and security consequences associated with counterfeiting and piracy. The United States pursues IPR 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 of FTAs; and domestically through U.S. trade laws, such as “Section 337” and “Special 301.”

IPR and U.S. Trade Negotiations

IPR protection and enforcement has been a key negotiating objective in TPA and in U.S. trade agreement negotiations. If the 113th Congress takes up TPA, it may consider IPR negotiating objectives. IPR issues in current and potential new free trade agreements could be of ongoing congressional interest. The 113th Congress could conduct oversight over implementation of the IPR commitments in the U.S. FTAs with Colombia, South Korea, and Panama, which entered into force in 2012. Congress may also wish to conduct oversight of the negotiation of IPR issues in the Trans-Pacific Partnership (TPP) free trade negotiations, in which the United States is seeking IPR protection and enforcement that exceeds the TRIPS Agreement, as in earlier FTAs. Among possible contentious IPR issues is the longstanding debate over the treatment of pharmaceuticals and possible new concerns in the digital realm or with the protection of geographical indications, an important issue in the transatlantic relationship.

Additionally, the 113th Congress could continue to monitor the resolution of the Anti-Counterfeiting Trade Agreement (ACTA), an agreement that was negotiated outside of the WTO by the United States and nearly 40 other primarily developed countries. It is intended to build on

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50 Written by Shayerah Ilias, Analyst in International Trade and Finance, 7-9253.
the minimum standards for IPR protection and enforcement set forth in the WTO TRIPS Agreement, including emerging IPR issues such as counterfeiting and piracy in the digital environment. ACTA negotiations concluded in October 2010, nearly three years after they began. The United States and most of the other negotiating parties have signed the agreement. The ACTA would enter into force after the sixth instrument of ratification, acceptance, or approval (“formal approval”) is deposited. Japan is the only party that has submitted a formal instrument of approval to date.

ACTA’s prospects are in question, given the Europe Parliament’s rejection of the ACTA in July 2012 and the European Commission’s decision to place the ratification process on hold and to submit the agreement to the European Court of Justice to determine if the ACTA is compatible with EU law. Subsequently, in December 2012, the European Commission reportedly decided to withdraw its request for review from the European Court of Justice, raising further uncertainty about the future of the ACTA.

Section 337 Process and Online Copyright Infringement and Piracy

Among the domestic tools that the United States has to pursue IPR-related trade policy is Section 337 of the Tariff Act of 1930 (19 U.S.C. §1337), 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. Under Section 337, the ITC is authorized to order the U.S. Customs and Border Protection (CBP) to stop imports from entering the U.S. border.

In the 112th Congress, Section 337 was a focus of legislative efforts to address jurisdictional problems associated with holding foreign websites accountable for piracy and counterfeiting. Multiple bills were introduced that renewed congressional and public debate about the balance between protecting U.S. intellectual property and promoting innovation. The 113th Congress could choose to take these issues up again.

International Investment

The United States is the largest source of foreign direct investment (FDI) in the world and also the largest recipient of foreign direct investment. This dual role means that globalization, or the spread of economic activity by firms across national borders, 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.

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Foreign Investment and National Security

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 have 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 P.L. 110-49, the Foreign Investment and National Security Act of 2007. 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. At times, the act has drawn Congress into a greater dialogue over the role of foreign investment in the economy.

U.S. International Investment Agreements

The United States promotes international investment agreements to reduce restrictions on foreign investment, protect investor rights, and balance other U.S. policy interests. These typically take two forms: bilateral investment treaties (BITs) and BIT-like chapters in free trade agreements. In April 2012, the Obama Administration announced the conclusion of its review of the U.S. Model BIT, the template which the United States uses to negotiate bilateral investment treaties (BITs) with foreign countries and investment chapters in FTAs.

The 2012 Model BIT maintains the “core” or substantive investor protections affirmed in the 2004 Model BIT review. Among other provisions in the Model BIT, it clarifies that BIT obligations apply to state-owned enterprises (SOEs); includes language 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); expands transparency obligations; and increases requirements for stakeholder input in the standards-setting process. The conclusion of the Model BIT review may generate momentum to conclude previously launched negotiations with countries such as China and India, or to launch investment negotiations with other U.S. trading partners. Investment policy issues feature prominently in U.S. trade negotiations, chief of which currently is the proposed Trans-Pacific Partnership (TPP) FTA.

BITs are submitted to Congress as treaties, which require a two-third’s vote of approval for ratification. BIT-like chapters in FTAs, by contrast, require simple majority approval of the trade implementing legislation by both Houses of Congress. The 113th Congress may be asked to

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54 Written by James K. Jackson, Specialist in International Trade and Finance, 7-7751.
55 Written by Shayerah Ilias (7-9253) and Martin A. Weiss (7-5407), Specialists in International Trade and Finance
consider new BITs, as well as a possible TPP agreement that would include an investment chapter. Additionally, the Congress may consider the treatment of investment provisions in future trade negotiating objectives if it takes up TPA renewal legislation (see section on TPA).

Promoting Investment in the United States

U.S. investment policy also focuses on attracting foreign investment to the United States. The SelectUSA Initiative, established by President Obama on June 15, 2011, is the federal initiative to encourage inward investment. It is administered by the Department of Commerce’s U.S. and Foreign Commercial Service. SelectUSA facilitates investment by: (1) partnering with firms, state and local governments, and other stakeholders; (2) assisting state and local governments with regulatory barriers; (3) coordinating across federal agencies to provide services that complement state and local efforts; and (4) managing the SelectUSA website, a resource for potential investors. Congress could consider funding levels and conduct oversight of the effectiveness of the SelectUSA initiative in promoting inward investment.

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 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, dramatically increasing their lending during 2008 and 2009 to help developing countries absorb the impact of reduced economic growth and its impacts on trade and financial flows. As lending increased, the IMF and the MDBs sought new donor resources. At several G-20 summits, world leaders committed to ensure sufficient resources for the IFIs to support their macroeconomic stability and development mandates. Many of these efforts, which were directed at stabilizing the world economy in the midst of the 2008-2009 global economic crisis, are now focused on resolving the Eurozone sovereign debt crisis to ensure that it does not undermine the stability and growth of the world economy.

International Monetary Fund

During the 112th Congress, attention centered on the use of IMF resources since the onset of the global economic crisis in 2008, on proposed IMF governance changes, and on the IMF’s role in the Eurozone debt crisis. Three Eurozone countries—Ireland, Greece, and Portugal—are currently receiving IMF-budget support and Congress will likely continue to conduct oversight of events in Europe.

In December 2010, the Board of Governors of the International Monetary Fund (IMF) agreed to a wide-ranging set of institutional reforms. If enacted, they would increase the institution’s core

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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.

To date, a majority of IMF member countries have approved these reforms, but the United States has not. U.S. inaction reportedly created tensions at the IMF-World Bank Annual Meetings in October 2012, with some IMF members frustrated because the United States was instrumental in initially advancing some of the reforms. Congress plays a pivotal role in determining the U.S. position on the current IMF reform agenda. 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.

**Multilateral Development Banks**

Following several years of elevated lending, the Obama Administration and other governments agreed to over $338 billion in general capital increases (GCIs) for the MDBs. During the first session of the 112 Congress, Congress provided full authorization for U.S. participation, with contributions expected to be spread out over a five- to eight-year period, depending on the institution. In FY2012, Congress also appropriated funds for several MDB concessional lending facilities and more targeted MDB funds.

Many policymakers view U.S. participation in MDB capital increases as important because the United States is the largest shareholder in 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 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 more clearly delineate the division of labor between the World Bank and the regional development banks. Members of Congress may evaluate the effectiveness of MDBs and act on possible future appropriations for 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,
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account for two-thirds of the world's population, 90% of world GDP, and 80% of world trade. The leaders of the G-20 countries hold annual meetings or “summits,” and meetings among finance ministers, central bankers, and other officials occur more frequently. 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.

During the height of the global financial crisis of 2008-2009, the G-20 reached a number of substantial agreements, including coordinating fiscal policies and financial regulatory reforms. As the immediate urgency of that crisis has waned, however, there are concerns that the G-20 has failed to deliver on previous agreements or provide adequate leadership in the global economy, particularly in the context of the Eurozone crisis. Others argue that the G-20 remains a critical forum for discussing policy initiatives across major countries and encouraging greater cooperation. The 113th Congress may want to exercise oversight over the Administration's participation in the G-20 process, including the policy commitments that the Administration is making in the context of the G-20 and the policies it is encouraging other G-20 countries to pursue. The next G-20 summit is scheduled for September 5-6, 2013 in St. Petersburg, Russia.

Eurozone Sovereign Debt Crisis

Since late 2009, the Eurozone has grappled with a sovereign debt crisis that threatens economic stability in Europe and beyond. Three Eurozone governments—Greece, Ireland, and Portugal—are receiving financial assistance from other Eurozone governments and the IMF. Compounding concerns about public finances are weaknesses in the Eurozone banking system; slow or negative growth, with the Eurozone re-entering recession in 2012; high unemployment, particularly among youth; and persistent trade imbalances within the Eurozone. The financial crisis has also become a political crisis, directly or indirectly leading to the fall of several governments in Europe and exposing deep disagreements among European countries and institutions about the future of the Eurozone and the European Union (EU).

European leaders and institutions have pursued a range of policy measures to respond to the crisis and stem contagion, particularly to Italy and Spain, the third and fourth largest economies in the Eurozone. These include ambitious austerity measures; debt restructuring; the creation of new European rescue funds; unprecedented steps by the European Central Bank (ECB) to increase liquidity in the Eurozone banking system; bank recapitalization in Spain; and the creation of a single supervisor for European banks, among others. The policy response has been complicated by the number of economic challenges facing the Eurozone, disagreements between Germany, France, and the ECB, as well as others, and the slow pace of EU decision making. After cycling through periods of intense market pressure and relative calm over the past two years, the Eurozone still faces serious economic challenges and questions about its future remain.

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62 The 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, the United Kingdom, and the United States, plus the European Union (EU).

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64 A total of 17 states of the 27-member European Union (EU) use the euro as the single currency. The 17 countries include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Spain, and Slovenia.
The United States and Europe have the largest bilateral economic relationship in the world, and many Members of Congress have expressed concern about the impacts of the Eurozone crisis on the U.S. economy. The crisis could continue to affect the U.S. economy through a number of channels, including the exposure of U.S. financial institutions and depressed demand for U.S. exports to Europe, among others. Some Members have also expressed concerns about the role of the IMF in the crisis, particularly since the United States is the largest shareholder in the institution. The 112th Congress held a number of hearings on the crisis and implications for the United States, and the 113th Congress is likely to continue monitoring the situation closely.

Argentina Sovereign Debt Default and Related Economic Policies

In December 2001, Argentina suffered a severe financial crisis, leading to the largest default on sovereign debt in history. After unsuccessful attempts to find a mutually acceptable solution to restructuring the debt, Argentina abandoned the negotiation process and made two bond exchange offers in 2005 and 2010 that were accepted by 92% of private creditors. This outcome left debt held by hedge funds and the Paris Club of countries, including the United States, in default. The offers flaunted normal restructuring procedures, and, as a result, Argentina faces prolonged litigation by holdout creditors that have resulted in judgments and attachment orders. In addition, Argentina has adopted policies that have caused increased tension with foreign states and companies. These include failure to pay judgments against Argentina in the World Bank’s International Centre for Settlement of Investment Disputes (ICSID), nationalization of a largely Spanish-owned oil company, increasingly protectionist trade measures, capital and exchange rate controls, import taxes, and failure to submit to an IMF Article IV economic review required of all Fund members.

U.S. policymakers remain frustrated at Argentina’s reluctance to settle with U.S. stakeholders and alter other policies. The United States has employed a number of sanctions against Argentina, including suspension of GSP benefits, and Congress has introduced resolutions calling for Argentina’s membership in the G-20 to be conditioned on adherence to international norms of economic behavior. In the 112th Congress, the Judgment Evading Foreign States Accountability Act of 2011 (H.R. 1798/S. 912) was introduced that would have attempted to pressure Argentina in a number of ways. The legislation did not receive a hearing, but was marked up by the House Committee on Foreign Affairs Subcommittee on the Western Hemisphere on November 29, 2012. Despite support for U.S. interests in this matter, some Members have distanced themselves from this particular bill, in part because the committee lacks jurisdiction and hearings have not been held. In addition, the issue still resides before U.S. federal courts, with an important appellate court ruling expected in February 2013, and some Members of Congress may wish to consider it in the context of broader international relations issues.

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**International Property Rights in U.S. Trade Policy**


**International Investment**


**International Finance, Institutions, and Crises**


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