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# Trade Adjustment Assistance for Firms: Economic, Program, and Policy Issues

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## Summary

The Trade Adjustment Assistance (TAA) programs were authorized by Congress in the Trade Expansion Act of 1962 to help workers and firms adjust to import competition and dislocation caused by trade liberalization. Trade liberalization, which is widely held to increase the economic welfare of all trade partners, can also cause adjustment problems for import-competing firms and workers. TAA has long been justified on grounds that TAA may be the least disruptive option for offsetting policy-driven trade liberalization. The TAA programs for workers, firms, and farmers represent an alternative to policies that would restrict imports, and so provide assistance while bolstering freer trade and diminishing prospects for potentially costly tension (retaliation) among trade partners.

Since the 1990s, debates over trade liberalization have increasingly focused on the changing nature of trade in an era of globalization—especially the emergence of global value chains (GVCs). GVCs are organized and coordinated by multinational companies (MNCs) and now account for about 70% of global trade in goods and services and capital goods. Numerous studies and statistical data show that GVCs offer the potential for small- and medium-size firms to become more integrated into international trade and produce higher value-added products. Although many small- and medium-size enterprises (or SMEs) have built strong ties to large U.S. exporters, a potential question is whether the Economic Development Administration (EDA) of the U.S. Department of Commerce, through the Trade Adjustment Assistance for Firms (TAAF) program, could assist trade-impacted firms in developing relationships with MNCs, as well as analyzing the necessary conditions that would allow TAAF-participating firms to have a realistic chance to do so.

This report discusses the TAAF program and policy issues, as well as legislation to reauthorize the TAAF program. It provides *technical assistance* to help trade-impacted firms make strategic adjustments to improve their global competitiveness. In the 113<sup>th</sup> Congress, House and Senate bills have been introduced. The Trade Adjustment Assistance Extension Act of 2013 (S. 1357), which would maintain current annual funding levels through 2020, was introduced on July 24, 2014, and the Trade Adjustment Assistance Act of 2014 (H.R. 4163) was introduced on March 6, 2014. President Obama also has supported passage TAA reauthorization, linking it to renewal of Trade Promotion Authorization (TPA).

As required by the Trade and Globalization Adjustment Assistance Act of 2009 (TGAAA) (Title II of P.L. 111-5), EDA publishes annual reports on the performance of the TAAF program. The reports have generally shown that two years after completion of the program, on average, participating firms have increased sales, employment, and productivity. The high success rate for firms that “completed” the TAAF program represents only about half of all firms certified as eligible for assistance. The rest left the program without completing an adjustment plan and were no longer monitored. The Government Accountability Office (GAO), which completed a comprehensive evaluation of the TAAF program in 2012, found that EDA’s administration and evaluation efforts had improved markedly and also confirmed EDA’s assessment that trade-impacted firms benefitted from the specialized attention provided by TAAF assistance. GAO found a “small and statistically significant relationship between program participation and sales,” which was particularly relevant to smaller firms, albeit also highly correlated with firms operating in high-growth industries. Employment effects were not found to be statistically significant.

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The Trade Adjustment Assistance (TAA) programs were authorized by Congress in the Trade Expansion Act of 1962, as amended, to help workers and firms adjust to import competition and dislocation caused by trade liberalization.<sup>1</sup> Although the economic welfare of all trade partners can be increased by trade liberalization, TAA has long been justified on grounds that the government has an obligation to help the “losers” of policy-driven trade openings that cause adjustment problems for import-competing firms and workers. TAA programs cover workers, firms, and farmers facing import competition. Congress continues to monitor performance and amend the governing legislation.<sup>2</sup>

This report discusses the Trade Adjustment Assistance for Firms (TAAF) program, which is administered by the Economic Development Administration (EDA) of the Department of Commerce. Through the TAAF program, EDA provides technical assistance, on a cost-sharing basis, to help eligible businesses create and implement targeted business recovery plans that may allow them to remain competitive in a dynamic international economy.<sup>3</sup> The TAAF program provides technical assistance through a partnership with a national network of 11 EDA-funded Trade Adjustment Assistance Centers (TAACs).

## The TAAF Program: Recent Legislative Background

Early in the 111<sup>th</sup> Congress, a bipartisan agreement was reached to reauthorize the TAA. The Trade and Globalization Adjustment Assistance Act (TGAAA) of the American Recovery and Reinvestment Act (ARRA) of 2009 (P.L. 111-5) expanded and extended the then-existing programs for workers, firms, and farmers, and added a fourth program for communities (later repealed). The TGAAA expanded eligibility to include services firms, increased annual authorized funding levels from \$16 million to \$50 million, provided greater flexibility for a firm to demonstrate eligibility for assistance (the “extended look-back period”), established new oversight and evaluation criteria, created a new position of Director of Adjustment Assistance for Firms, and required submission to Congress of a detailed annual report.

With the TAA programs set to expire on January 1, 2011, the House and Senate passed, and the President signed, the Omnibus Trade Act of 2010 (P.L. 111-344) in late December 2010. The act extended TAA programs through February 12, 2012, but eliminated some of the expanded provisions of the TGAAA, including eligibility for services firms and the expanded look-back periods for qualifying firms to meet eligibility requirements. The 112<sup>th</sup> Congress offered supporters an opportunity to revisit TAA reauthorization as part of the debate over passage of implementing legislation for the proposed free trade agreements (FTAs) with Colombia, Panama, and South Korea. The Trade Adjustment Assistance Extension Act of 2011 (TAAEA) passed on October 12, 2011, and was signed into law on October 21, 2011 (Title II, P.L. 112-40; H.R. 2832).

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<sup>1</sup> A list of acronyms is provided at the end of this report to assist readers.

<sup>2</sup> For a broader discussion on the policy debate over TAA, see CRS Report R41922, *Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy*, by J. F. Hornbeck. See also CRS Report R42012, *Trade Adjustment Assistance for Workers*, by Benjamin Collins; CRS Report R40206, *Trade Adjustment Assistance for Farmers*, by Remy Jurenas, and CRS Report R42661, *Trade Adjustment Assistance Community College and Career Training Grants*, by Benjamin Collins.

<sup>3</sup> The Trade Adjustment Assistance for Firms (TAAF) program is authorized by Chapters 3 and 5 of title II of the Trade Act of 1974, as amended (19 U.S.C. §2341 et seq.).

The TAAEA authorized the TAAF program through December 31, 2014. On January 1, 2015, only those firms that are already certified and participating in the TAAF program will be eligible to receive technical assistance subject to funds being available. The TAAEA retroactively extended the enhanced provisions (inclusion of services firms and the extended “look-back” period) contained in the TGAAA through December 31, 2013. On January 1, 2014, the TAAF reverted back to the more limited program that was in effect as of February 13, 2011. The expiration of the expanded provisions of the TAAF program in 2011 limited the number of firms entering the program (services firms were no longer eligible to participate), and the extended look back period was eliminated. These factors combined with an improving economy that made it more difficult for firms to demonstrate their eligibility to participate. Additionally, there was uncertainty about the TAAF program’s future. With the January 1, 2014, expiration of the expanded provisions, it is possible that the TAAF program, which continues to operate at slightly lower levels of funding (the program has an appropriation of \$15 million for FY2014), may once again see a decline in the number of firms entering the program. Uncertainty about the reauthorization of TAAF by the end of 2014 could also affect the recruitment of new firms.<sup>4</sup>

**Status of TAAF as of January 1, 2014**

- Service sector firms are no longer eligible for assistance;
- Petitioning firms may use a 12-month “look back” period *only* to demonstrate their eligibility and not a 24- or 36-month look back period;
- The Economic Development Administration (EDA) must make a determination on a petition within 60 days from the date of acceptance of the petition; and
- On January 1, 2015, the TAAF authorization expires; after January 1, 2015, only firms that are certified and participating in a business recovery plan will be eligible to receive technical assistance.

As required by Congress, the Government Accountability Office (GAO) conducted a comprehensive review of the TAAF program, which was released in September 2012. It notes important progress in the administrative capabilities of EDA and documents the positive impact of the TAAF program on trade-affected businesses. The GAO report also discussed the positive contribution of the changes initially made by the TGAAA and reinstated by the TAAEA, including the ability of service sector firms to participate in the program and the extended look-back periods. The lapse of the TGAAA changes made service firms ineligible and limited the ability of some manufacturing firms to demonstrate the requisite declines in production or sales. The report also pointed to continuing challenges in centralized data management, evaluation reporting, and assessment of the effectiveness of TAAF.<sup>5</sup>

<sup>4</sup> Government Accountability Office (GAO), *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Service Firms, but Measures, Data, and Funding Formula Could Be Enhanced*, Statement of J. Alfredo Gomez, Testimony Before the Subcommittee on Government Organization, Efficiency, and Financial Management, Committee on Oversight and Government Reform, House of Representatives, GAO-13-166T, November 14, 2012, p. 4, and the full report: GAO, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Service Firms, but Measures, Data, and Funding Formula Could Be Enhanced*, GAO-12-930, September 2012; U.S. Department of Commerce, Economic Development Administration, *Economic Development Administration, Trade Adjustment Assistance to Firms Program: Fiscal Year 2013 Annual Report to Congress*, December 15, 2013, pp. 13, 17.

<sup>5</sup> GAO, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Service Firms, but Measures, Data, and Funding Formula Could Be Enhanced*, GAO-12-930, September 2012.

## The Economics of Trade Adjustment

Economists tend to agree that in defining the rules of exchange among countries, freer trade is preferable to protectionism. Insights from trade theory point to the mutual gains for countries trading on their differences, producing those goods at which they are relatively more efficient, while trading for those at which they are relatively less so. Additional gains are realized from intra-industry trade based on efficiencies from segmented and specialized production.<sup>6</sup> Firm-level evidence supports theory. Trade appears to “enable efficient producers within an industry, and efficient industries within an economy, to expand,” leading to a reallocation of resources that increases a country’s productivity, output, and income.<sup>7</sup> Consumers (both firms and households) also gain from a wider variety of goods and lower prices.

Increased competition from trade liberalization also creates “winners and losers,” presenting adjustment problems for all countries. The more efficient firms and plants may grow as they expand into overseas markets; the less efficient may contract, merge, or fail when faced with greater foreign competition. While the adjustment process may be healthy from a macroeconomic perspective, much like market-driven adjustments that occur for reasons other than trade (e.g., technological change), it can be a harsh transition for some firms and their workers.<sup>8</sup>

Critics of free trade agreements often highlight the adjustment costs of reducing trade barriers. To avoid business closures and layoffs, trade-impacted firms may seek to weaken, if not defeat, trade liberalizing legislation. This makes economic sense from the perspective of affected industries, firms, and workers, but economists argue that in the long run it can be more costly for the country as a whole. The costs of protection arise because competition is suppressed, reducing pressure on firms to innovate, operate more efficiently, and become lower cost producers. The brunt of these costs falls to consumers, both individuals and businesses, who must pay higher prices, but the national economy is also denied higher standards of living because of forgone productivity gains. In response, larger firms may opt to avoid the costs of rising protection by shifting the least productive activities to lower cost countries.

One way to balance the large and broad-based gains from freer trade with the smaller and more highly concentrated costs is to address the needs of firms negatively affected. Congress has done so in authorizing the TAA programs, including the one for firms.<sup>9</sup> Supporters justify TAA policy on grounds that (1) it helps those who are hurt by trade liberalization (the “losers”); (2) the economic costs are lower than protectionism and can be borne by society as a whole (“the winners”); and (3) given rigidities in the adjustment process, it may help redeploy economic resources more quickly, thereby reducing productivity losses and related public sector costs (e.g.,

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<sup>6</sup> For an accessible and authoritative summary of these effects, see Paul Krugman, “The Increasing Returns Revolution in Trade and Geography,” *American Economic Review*, vol. 99, no. 3 (June 2009), pp. 561-571.

<sup>7</sup> On how trade affects total factor productivity based on U.S. manufacturing firm and plant level data, see Andrew B. Bernard and J. Bradford Jensen, “Exporting and Productivity in the USA,” *Oxford Review of Economic Policy*, vol. 20, no. 3 (2004), pp. 343-344, 350, 352, and 356.

<sup>8</sup> Both the benefits and costs of trade derive from resources moving from less to more productive plants (intra-industry) and firms (inter-industry). Employment dislocation is the most noticeable cost, giving rise to congressional interest in TAA programs. *Ibid.*, pp. 345 and 356.

<sup>9</sup> Howard F. Rosen, *Strengthening Trade Adjustment Assistance*, Peterson Institute for International Economics, Policy Brief PB08-2, Washington, DC, January 2008, pp. 1-2.

unemployment compensation). Others dispute these claims and have raised concerns over the effectiveness and costs of the program, arguing that it should be limited or discontinued.<sup>10</sup>

## TAA and Global Value Chains: What Do We Know?

One factor that may be underappreciated in debates over trade liberalization is the changed nature of trade in an era of globalization—especially the emergence of global value chains (GVCs). GVCs are mainly organized and coordinated by large multinational companies (MNCs) and account for more than 70% of global trade in goods and services and in capital goods.<sup>11</sup> A large share of global trade takes place within GVCs in the form of imports and exports of intermediate (or unfinished) goods and services that move within, between, and among countries. This system of production depends on the willingness of many countries to import in order to export. At the domestic level, the U.S. small- and medium-sized domestic producers that sell goods and services to multinational exporters are not counted as exporters—even though they contribute a substantial amount of the value added in U.S. exports. The statistical data needed to measure the contribution of domestic and foreign value added at each stage of GVC production is under development and a complete picture of the impact of GVCs may not be possible until such data are available. (See Appendix: A Simplified View of Trade in Global Value Chains.)

In a recent study, the Organization for Economic Cooperation and Development (OECD) states that the participation of smaller firms in GVCs is often underestimated. Smaller firms “often supply intermediates to exporting firms in their country and are as such relatively more integrated in the domestic value chains.”<sup>12</sup> Unlike most other major industrialized, emerging, and developing economies, the United States is less dependent on imports of foreign intermediate goods for its exports.<sup>13</sup> Instead, small- and medium-size domestic firms are, in aggregate, major suppliers of goods (parts, components, and finished products) and services to large U.S. exporters. The OECD cites studies by Matthew Slaughter and the U.S. International Trade Commission (USITC) that show that

the typical U.S. MNC buys more than \$3 billion in inputs [goods and services] from more than 6,000 U.S. small and medium-sized enterprises (SMEs)—or almost 25% of the total input purchased by these firms. These domestic supplies are not reflected in international trade statistics, which only count direct exports; estimates for the United States show that in

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<sup>10</sup> A discussion of both sides of the argument may be found in CRS Report R41922, *Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy*, by J. F. Hornbeck.

<sup>11</sup> OECD/World Trade Organization (WTO)/The World Bank, *Global Value Chains: Challenges, Opportunities, And Implications For Policy*, Report prepared for submission to the G20 Trade Ministers Meeting, Sydney, Australia, July 19, 2014, p. 7.

<sup>12</sup> OECD, *Interconnected Economies: Benefiting from Global Value Chains*, September 2013, p. 21.

<sup>13</sup> Brazil and Russia, large emerging economies, are the two major exceptions. In 2009, the Russian Federation had the highest level of domestic value-added content of any of the G-20 countries (93%) because of an increasing dependence on mining exports, while second place Brazil (at 91%) had, since 1995, become increasingly specialized in agricultural and mining exports. OECD, *OECD/WTO Trade in Value Added (TIVA) Indicators*, May 28, 2013, <http://www.oecd.org/trade/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm#countries>; Jeffrey Horowitz and David Riker, “Measuring Shifts in Brazil’s Trade Using International Input-Output Tables,” *Journal of International Commerce and Economics*, April 2014, <http://www.usitc.gov/journals>.

2007 the export share of SMEs increased from approximately 28% (in gross exports) to 41% (in value-added exports), when such indirect exports are taken into account.<sup>14</sup>

The USITC calculated that in 2007 *total* direct exports by U.S. SMEs amounted to \$382 billion and indirect exports of SMEs amounted to \$98 billion.<sup>15</sup> These figures translate into an estimated 4.0 million U.S. jobs, with 1.7 million U.S. jobs supported by direct SME exporters and an additional 2.1 million jobs created by SME indirect exporters that sell intermediate inputs to direct exporters.<sup>16</sup> Of the 10 million U.S. jobs that are supported by U.S. exports of goods and services, SME exports account for approximately 40% of all export-supported jobs in the United States.<sup>17</sup> Significantly, the USITC report found that “much of the indirect value-added exports by SMEs—the intermediate goods and services produced by SMEs that are eventually shipped abroad as components embedded in other products—is concentrated in the manufacturing sector.”<sup>18</sup>

Although the main focus of TAAF is on troubled SMEs, the magnitude of U.S. SME-produced goods that are exported by GVCs suggests that EDA, through the TAAF and the TAACs, could potentially assist and encourage linkages between troubled, import-impacted SMEs and the MNCs that are major exporters of SME inputs. While many of the U.S. SMEs that participate in GVCs will be capable of withstanding foreign import competition, there are few guarantees that the current domestic sourcing advantage enjoyed by U.S. SME producers will remain stable in the future. Liberalized trade policies adopted by the United States or other countries, new technologies, or macroeconomic conditions could potentially erode the favorable position that some U.S. SMEs currently enjoy. Although many SMEs have built strong ties to large U.S. exporters, a potential question is whether the EDA, through the TAAF program and the TAACs, could assist trade-impacted firms in developing relationships with MNCs, as well as analyzing the necessary conditions that would allow TAAF-participating firms to have a realistic chance of doing so.

The high volume of trade that flows through GVCs and the predominant position of the United States as a major GVC hub and headquarters nations (with the highest level of domestic value-added export content (89%) of any OECD country and the third highest in the Group of Twenty (G20) after Russia and Brazil) suggests the possibility that GVCs could be a source of opportunity for U.S. trade-impacted firms.<sup>19</sup> EDA produces an annual report for Congress on the operations of the TAAF program, but among the data requirements established by Congress in the TGAAA, as amended, there are no performance measures that document or report on TAAF-

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<sup>14</sup> See Matthew J. Slaughter, *American Companies and Global Supply Networks: Driving US Economic Growth and Jobs by Connecting with the World*, Washington, DC, 2013, p. 6, and USITC, *Small and Medium-Sized Enterprises: Characteristics and Performance*, Investigation No. 332-510, Publication 4189, Washington, DC, November 2010, p. 5-5.

<sup>15</sup> The figures in the quoted paragraph and the text immediately preceding this footnote reflect purchases of goods and services by the typical U.S. MNC (which *on average* amounted to \$3 billion in 2007) and *total* direct and indirect exports by SMEs (which respectively amounted to \$382 billion and \$98 billion in 2007).

<sup>16</sup> USITC, *Small and Medium-Sized Enterprises: Characteristics and Performance*, 2010, pp. 5-5 to 5-6.

<sup>17</sup> *Ibid.*, p. xiv.

<sup>18</sup> *Ibid.*, p. 5-6.

<sup>19</sup> OECD/WTO, *Trade in Value Added (TiVA) Indicators: United States (Country Notes)*, May 28, 2013, [http://www.oecd.org/sti/ind/TiVA\\_USA\\_MAY\\_2013.pdf](http://www.oecd.org/sti/ind/TiVA_USA_MAY_2013.pdf). Data is for 2009. For an explanation of the OECD/WTO Trade In Value Added (TiVA) Indicators, see their *Guide to Country Notes*, May 28, 2013, [http://www.oecd.org/sti/ind/TiVA\\_Guide\\_to\\_Country\\_Notes.pdf](http://www.oecd.org/sti/ind/TiVA_Guide_to_Country_Notes.pdf).



participating firms that sell goods or services to U.S. exporters (in terms of number of firms assisted and value of goods sold), or that provide data on direct exports by firms receiving TAAF assistance.

## Trade Adjustment Assistance for Firms Program<sup>20</sup>

Congress first authorized TAA in Title III of the Trade Expansion Act of 1962 (P.L. 87-794), including a new firm and industry assistance program, which is administered by the EDA.<sup>21</sup> It provides *technical assistance* to help trade-impacted firms make strategic adjustments that may allow them to remain competitive in a global economy. Originally, TAAF also included loans and loan guarantees, but Congress eliminated all direct financial assistance in 1986 because of federal budgetary cutbacks and concern over the program's high default rates and limited effectiveness. Congress has amended the program many times over the half century of its existence.

TAAF authorizations and appropriations for FY2002-FY2014 appear in **Table 1**. The TAAF program has been reauthorized through December 31, 2014, and is currently operating under the Consolidated Appropriations Act, 2014 (P.L. 113-76) with an FY2014 appropriation of \$15 million.

**Table 1. Firm TAA Authorizations and Appropriations, FY2001-FY2014**

(\$ millions)

|                | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Authorizations | 10.0 | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 | 50.0 | 50.0 | 0.0  | 16.0 | 16.0 | 16.0 |
| Appropriations | 10.5 | 10.0 | 11.9 | 11.0 | 12.8 | 12.8 | 14.1 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.0 |

**Data Source:** U.S. Department of Commerce, Economic Development Administration (EDA).

### The TAAF Program: How It Operates

The TAAF program provides technical assistance to firms through eleven regional Trade Adjustment Assistance Centers (TAACs). TAACs, which operate under cooperative agreements with EDA, are available to assist firms in the 50 states, the District of Columbia, and the Commonwealth of Puerto Rico. The following entities may apply for assistance to operate a TAAC: (1) Universities or affiliated organizations; (2) States or local governments; or (3) Nonprofit organizations.<sup>22</sup> They provide or contract for technical assistance to firms from the initial certification process through Adjustment Proposal (AP) implementation. TAACs are staffed by professionals with broad business expertise who can help firms develop recovery strategies and also identify financial resources. They are, in effect, consultants who specialize in business turnaround strategies specifically designed to meet the needs of individual firms that

<sup>20</sup> Based on 2012 13 C.F.R. §315, which provides details for applying for TAAF assistance, and EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2013*, Washington, DC, December 15, 2013.

<sup>21</sup> The TAAF program was originally administered jointly by the Tariff Commission (predecessor to the USITC) and the U.S. Department of Commerce.

<sup>22</sup> 13 Code of Federal Regulations (CFR), Ch. III §315.4, January 1, 2014, p. 774.

often face adjustments in many areas to compete with lower-priced imports.<sup>23</sup> TAACs apply for EDA grants to operate their programs. All appropriated funds are used to support the TAAC process; *no funds or direct financial assistance* may be provided to firms.

## Eligibility and Certification

There are three phases to successful completion of a trade adjustment assistance project (see **Figure 1**).

In **phase one** a firm must demonstrate that it is eligible to apply for assistance. The firm submits a *petition for certification* documenting that it is a “trade-impacted firm” by having met three conditions:<sup>24</sup>

1. “a significant number or proportion of workers”<sup>25</sup> in the firm have become or are threatened to become totally or partially separated;
2. sales, or production, or both decreased absolutely, or sales, or production, or both of any article that accounted for not less than 25% of total sales or production of the firm during the 12 months preceding the most recent 12 months for which data are available have decreased absolutely; and
3. increased imports of articles like or directly competitive with articles produced by the firm have “contributed importantly”<sup>26</sup> to both layoffs and the decline in sales and/or production.

Certification specialists are available in the TAACs to work with firms (at no cost to the firm) to complete and submit a petition to EDA to be certified as a trade impacted firm. As of January 1, 2014, EDA is statutorily required to make a final determination on a petition within 60 days of accepting it. In recent years, this time has averaged four weeks, and was 25 days in FY2013.<sup>27</sup>

In **phase two**, a firm certified as eligible has two years to develop and submit a business recovery plan or *Adjustment Proposal (AP)*. Approval of the AP is contingent on EDA’s finding that the AP (1) is reasonably calculated “to materially contribute” to the economic adjustment of the firm; (2) gives adequate consideration to the interests of the firm’s workers; and (3) demonstrates that the firm will use its own resources for adjustment.

The TAACs also provide detailed assistance for the adjustment proposal, which seeks to identify business planning and practices that can be enhanced to improve firm competitiveness. EDA has

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<sup>23</sup> P.L. 93-618, Section 253, as amended, and U.S. Department of Commerce, Economic Development Administration, <http://www.taacenters.org>.

<sup>24</sup> 13 C.F.R. §315.7 and U.S. Department of Commerce, Economic Development Administration, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2013*, Washington, DC, December 15, 2012, pp. 10-11.

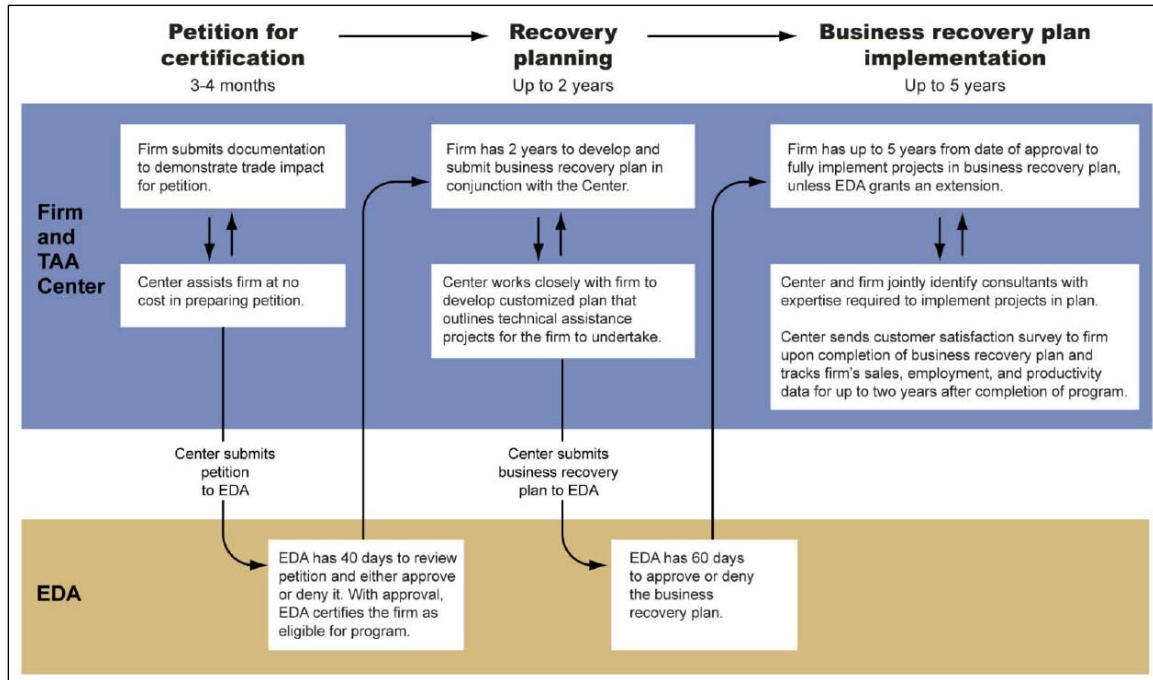
<sup>25</sup> Five percent of a firm’s work force or 50 workers, whichever is less, with EDA discretion to set other parameters in special cases. 13 C.F.R. §315.2

<sup>26</sup> In this case, the contributing cause must be important, but not necessarily more important than any other cause. A firm must provide a list of four important customers, of which the TAAC must interview two, to help evaluate whether the firm has been “trade-impacted.” 13 C.F.R. §315.2.

<sup>27</sup> EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2013*, Washington, DC, December 15, 2013, p. 13.

another 60 days to accept or reject the adjustment proposal. In FY2013, the average processing time for APs was 15 days. Because technical assistance is provided in the preparation of the petition and adjustment proposal, there is a high formal acceptance rate. TAAC assistance ensures that submissions are completed correctly and that poor candidates are weeded out early in the process. The firm must pay at least 25% of the cost to prepare the adjustment proposal.<sup>28</sup> In FY2013, 133 firms received assistance in developing APs.

**Figure I. Three Stages of TAAF: Process and Interaction among Firms, TAACs, and EDA**



**Source:** Government Accountability Office, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve*, GAO-12-930, Washington, DC, September 2012, p. 7.

**Notes:** Diagram based on GAO analysis of EDA documents. As of January 1, 2014, EDA is statutorily required to make a final determination on a petition for certification within 60 days of accepting it.

In **phase three**, firms have five years to complete *project implementation* based on an approved AP. EDA may provide financial assistance for project implementation, but firms must pay at least a 25% match where total implementation cost for an AP are less than \$30,000. For project assistance exceeding \$30,000, a firm must cover at least 50% of the total cost, with the federal share capped at \$75,000.<sup>29</sup>

Adjustment proposals may involve strategic restructuring of various aspects of business operations. First, because firms must be experiencing falling sales or declining production to be eligible, TAACs often focus on marketing or sales strategies to identify new markets, new products, promotional initiatives, and export opportunities. The core idea is to increase revenue.

<sup>28</sup> Ibid., p. 25 and 13 CFR 315.6 (c) (2).

<sup>29</sup> Ibid., pp. 11, 25.

Second, production inefficiencies are often targeted to reduce firm costs and improve price competitiveness. Third, TAACs can develop debt restructuring strategies and act as intermediaries in finding new sources of business financing. In 2013, 41% of adjustment assistance focused on improving marketing-sales, 25% on production, 30% on enhancing support or management systems, and 4% on financial systems.<sup>30</sup> In FY2013, 692 firms received AP implementation assistance (see **Table 2**). TAAC assistance to firms to prepare petitions and to develop and implement business recovery plans (APs) amounted to \$9.703 million in FY2013 and the financial contribution of firms participating in the program amounted to \$6.182 million.

**Table 2. Characteristics of Technical Assistance in APs: FY2013**

| Project Classification | Sample Types of Projects                | Number of AP Projects | APs by Project Classification | AP Project Costs <sup>a</sup> |
|------------------------|---|-----------------------|-------------------------------|-------------------------------|
| Financial              | Accounting systems upgrade              |                       |                               |                               |
|                        | Cost control tracking system            | 16                    | 4%                            | \$316,500                     |
|                        | Automatic Data Processing development   |                       |                               |                               |
| Management             | Strategic business planning             |                       |                               |                               |
|                        | Succession management                   | 23                    | 6%                            | \$442,000                     |
|                        | Management development                  |                       |                               |                               |
| Marketing/Sales        | Sales process training                  |                       |                               |                               |
|                        | Market expansion and feasibility        | 152                   | 41%                           | \$4,657,290                   |
|                        | Web site design and upgrade             |                       |                               |                               |
| Production             | Lean manufacturing and certification    |                       |                               |                               |
|                        | New product development                 | 94                    | 25%                           | \$3,396,150                   |
|                        | Production and warehouse automation     |                       |                               |                               |
| Support Systems        | Enterprise Resource Planning            |                       |                               |                               |
|                        | Management Information Systems upgrades | 89                    | 24%                           | \$3,156,555                   |
|                        | Computer Aided Design software          |                       |                               |                               |
|                        | Supply chain management software        |                       |                               |                               |

**Source:** EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2013*, Washington, DC, December 15, 2013, pp. 38-39.

**Notes:**

- a. AP Project Costs reflect the cost of technical assistance provided by the TAACs and the financial contributions made by participating firms to develop and implement business recovery plans.

**Table 3** summarizes select firm trade adjustment data for FY2004-FY2013. The TAAF program targets small- and medium-sized enterprises (SMEs), which is borne out in the firm data. With the exception of 2010, firms averaged fewer than 100 employees and had average sales of \$19 million since then. In 2013, the federal government provided 52.0% of adjustment costs, for an average \$54,340 per firm. In FY2013, 89% of certified firms were in manufacturing, 3% were

<sup>30</sup> EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2013*, p. 39.

service firms (in manufacturing and technical services), 3% were in wholesale trade, 3% were in agriculture, and 2% were in commercial machinery.<sup>31</sup>

**Table 3. Trade Adjustment Assistance for Firms,  
Select Program Indicators for FY2004-FY2013**

|                                       | 2004     | 2005     | 2006     | 2007     | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Number of Firms Assisted <sup>a</sup> | 177      | 132      | 137      | 126      | 143      | 172      | 264      | 183      | 102      | 114      |
| Avg. Firm Sales (millions)            | \$11.6   | \$8.4    | \$10.6   | \$11.2   | \$13.1   | \$10.3   | \$19.1   | \$19.6   | \$19.2   | \$15.2   |
| Avg. Firm Employees                   | 88       | 64       | 91       | 68       | 82       | 79       | 138      | 91       | 81       | 86       |
| Gov't. Share (millions)               | \$8.5    | \$5.9    | \$6.7    | \$7.1    | \$8.2    | \$10.4   | \$16.5   | \$16.1   | \$5.4    | \$6.2    |
| Firm Share (millions)                 | \$8.1    | \$5.4    | \$6.0    | \$5.9    | \$7.7    | \$9.9    | \$15.7   | \$10.6   | \$5.0    | \$5.8    |
| Total Cost (millions)                 | \$16.6   | \$11.3   | \$12.7   | \$13.0   | \$15.9   | \$20.3   | \$32.2   | \$21.7   | \$10.4   | \$12.0   |
| Avg. TAA Per Firm <sup>b</sup>        | \$48,023 | \$44,697 | \$48,905 | \$56,449 | \$57,361 | \$60,428 | \$62,307 | \$60,522 | \$53,308 | \$54,325 |

**Data Source:** EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program, Fiscal Year 2013*, pp. 25, 31.

- a. Number of Adjustment Proposals approved. Participating firms may have up to five projects in an approved AP. Firms can remain in an approved AP for up to five years, with firms remaining in the program for differing lengths of time.
- b. Government share of TAA Firm program divided by the number of accepted Adjustment Proposals.

## Program Evaluation

Historically, TAAF program evaluation was limited, with EDA lacking a formal evaluation process. Early efforts to analyze the program included comprehensive outside studies by the Urban Institute in 1998 and GAO in 2000 that addressed two critical issues: program administration and effectiveness.<sup>32</sup> Both found deficiencies with the TAAF program, such as a cumbersome certification process, long approval times, and little oversight and evaluation of projects. As a small program with limited resources, the TAAF had not received the managerial input required to adequately evaluate its efforts. Congress addressed this issue in the TGAAA, which required the creation of a new Director of Adjustment Assistance for Firms, along with additional support staff. The 2009 act also required an annual report to Congress and included specific performance measures to be collected and analyzed. Congress also mandated EDA to certify petitions for assistance and Adjustment Proposals within specific time frames.

<sup>31</sup> Ibid., p. 19.

<sup>32</sup> EDA, *Effective Aid to Trade-Impacted Manufacturers: An Evaluation of the Trade Adjustment Assistance Program*, prepared by the Urban Institute, Washington, DC, November 1998; GAO, *Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear*. Report GAO-01-12, Washington, DC, December 2000.

## GAO 2012 Evaluation of TAAF Program Remains Relevant

The TGAAA required GAO to conduct an extensive evaluation of the TAAF program, which was released in September 2012.<sup>33</sup> GAO found that EDA’s administration of the TAAF program had improved markedly as a result of changes resulting from the 2009 legislation. EDA reduced processing times, provided new performance reporting measures, and increased firm participation. GAO noted that TGAAA modifications to the TAAF program led to improvements in (1) management and staffing, (2) annual reporting, (3) eligibility for participation of services firms, and (4) expansion of the “look-back” period that permitted more firms to meet certification criteria.<sup>34</sup>

In its report, GAO raised concerns about EDA’s ability to improve program management and program outcomes. One of the weaknesses identified by GAO was EDA’s funding allocation formula for TAACs to ensure that the distribution of funds across TAACs provide “equivalent benefits” adequate to meet the varying needs of the 11 TAACs.

The second area of concern raised by GAO was EDA’s analysis of performance measures. The three most recent TAAF annual reports (FY2011 through FY2013) emphasize *output* measures (the type or level of program activities conducted or the direct products or services delivered by a program: number of firms assisted, petitions accepted, processing times) rather than *outcome* measures (defined as goals and performance measures that assess the results of a program, compared with its intended purpose). In part, this appears to be a result of the measures and indicators that Congress required EDA to collect and analyze. Of the 16 performance indicators, GAO reported that 13 emphasize outputs, or measures, of the goods and services provided by the program.

The TAAF annual reports have compared the performance of TAAF participants, which are, by definition, trade-impacted, troubled firms to the average performance of the U.S. manufacturing sector as a whole (using Bureau of Labor Statistics (BLS) data). GAO expressed concerns with EDA’s methodology and recommended that “using program evaluation methods to rule out plausible alternative explanations for outcomes that may be influenced by a variety of external factors, such as changes in the economy, can help strengthen evaluations.”<sup>35</sup> GAO conducted its own analysis to evaluate the policy impact of the TAAF on firms participating in the program.

The GAO report discussed the difficulties inherent in attempting to assess the “apples-to-oranges” effect of comparing TAAF-participating companies with a group of nonparticipating firms (as EDA has done). Even if a control group with characteristics similar to TAAF-participating firms could be identified, GAO noted that such an analysis would also have weaknesses. Given these limitations, GAO analyzed the performance of TAAF-participating firms, but explicitly recognized that such an approach could not determine whether TAAF firms’ performance would have improved in the absence of the program.<sup>36</sup>

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<sup>33</sup> GAO, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve*, Report GAO-12-930. Washington, DC, September 2012.

<sup>34</sup> *Ibid.*, pp. 12-13.

<sup>35</sup> *Ibid.*, p. 18. The recommendations are contained in GAO, *Program Evaluation: A Variety of Rigorous Methods Can Help Identify Effective Interventions*, GAO-10-30, November 23, 2009, Washington, DC.

<sup>36</sup> GAO, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve, Appendix III: Economic Analysis of the Effect of Trade* (continued...)

Using its own methodology, GAO found a “small and statistically significant relationship between program participation and sales.”<sup>37</sup> GAO estimated that TAAF assistance, on average, resulted in a 5% to 6% increase in sales, which was particularly relevant to smaller firms, and a 4% increase in productivity, albeit also highly correlated with firms operating in industries that were experiencing growth. Employment effects were not found to be statistically significant. GAO also confirmed EDA’s assessment that both manufacturing and services firms faced import competition that directly affected their sales, and that these firms, by and large, benefitted from specialized attention provided by TAACs. In addition, GAO conducted a survey of firms participating in the TAAF program. The survey found that 90% of respondent firms reported that they were “very” or “generally” satisfied with the services that they received from the TAACs. The GAO report provided some of the strongest evidence to date of the benefits of the now-lapsed 2009 legislative changes, as well as EDA’s much-improved administration and evaluation of the TAAF program compared to years past.

## EDA Annual Reports on the TAAF Program: Discussion

EDA is required by Congress to submit an annual report that provides findings and results (or performance measures) on the TAAF program.<sup>38</sup> EDA has released four annual reports (FY2010 through FY2013) that identify numerous administrative and operational improvements that have been made. In addition, TAACs are now allocated funds in part based on performance measures (number of firm certifications and adjustment proposals generated) and quality measures.

As part of the TAAF annual report, EDA is required to provide a comparison of sales, employment, and productivity for each firm at the time it was certified and both one and two years after the recovery plan was implemented. EDA does not estimate the specific number of “jobs retained” or “jobs created.” In its FY2013 report, EDA notes that, from FY2011 to FY2013, average firm sales had increased by 20.3%, average employment rose by 6.6%, and average productivity increased by 12.8%.<sup>39</sup> EDA also notes that all firms completing the adjustment program were still in operation—suggesting an impressive “survival rate”—particularly given that all these firms have the additional burden of adjusting to import competition.<sup>40</sup> In analyzing earlier EDA reports (FY2010 to FY2013), GAO concluded that these trends provide only a limited understanding of program effectiveness. The data on employment and productivity are derived from annual surveys conducted by the 11 TAACs. The data are then aggregated and presented as part of the congressionally required annual report. Employment effects are referred to as number of “jobs impacted,” or number of jobs retained or generated at firms completing at least one technical assistance project.

Declines in employment do not necessarily reflect TAAC performance. Employment can fall dramatically for firms that are hit by a surge of foreign import competition or by market

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(...continued)

*Adjustment Assistance Policy on Firm Market Performance*, Report GAO-12-930, Washington, DC, September 2012, p. 50.

<sup>37</sup> Ibid., pp. 22-24.

<sup>38</sup> Section 255A of chapter 3 of title II of the Trade Act of 1974, as amended.

<sup>39</sup> Productivity is defined as sales per worker, a simple measure that can be used across industries, but which may have limitations for evaluative purposes.

<sup>40</sup> EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2012*, p. 34.

disruptions that are not trade-related. In the two reporting years following firms' completion of business recovery programs, firms may continue to experience increased import competition or other negative effects (for instance, a slow economic recovery from the Great Recession). Under these circumstances, the fact that employment may continue to decline two years after an adjustment proposal has been implemented is not necessarily an unexpected or negative outcome in terms of trade adjustment assistance effectiveness. Whether the current one and two-year post-TAAF-exit reporting periods provide enough time and data to assess the effectiveness of recovery programs, it is possible that a number of successful TAAF-participants will continue to face increased competition that results in some program participants operating at levels of output or employment that existed prior to TAAF assistance.

As noted in the previous section, caution is warranted when drawing conclusions on the basis of limited trend data. EDA figures reflect employment trends that may be understood to imply that results may be attributable to the TAAF program. A more rigorous analysis would be needed to estimate and isolate the effects of the TAAF program from other factors that may affect employment trends in TAAF-participating firms. To more accurately assess the effectiveness of the TAAF program in terms of helping firms or "saving jobs," it would be necessary to use more sophisticated methodologies and analyses (such as those employed and recommended by GAO) than Congress currently requires for the TAAF annual report.

With respect to the reported high "survival rate" for firms that completed the TAAF program, they represent only about half of all firms that had their adjustment proposals approved for assistance. In FY2013, of the 128 firms that exited the TAAF program, 88 firms (69%) successfully exited the program. Of that 88, 51 (40%) firms completed their program and another 37 (29%) completed an achievable number of projects within the five-year limit. The remaining 40 (31%) did not complete the program for various reasons, including failure to submit AP within 2 years of TAAF certification (12, 9%); firm inactive/lost interest in TAAF Program (12, 9%); time in program expired (7, 6%); company sold (6, 5%); and out of business or owner retired (3, 2%).<sup>41</sup>

Firms enter and exit the TAAF program in different years, and some firms participate in more than one TAAF adjustment program at the same time, so it is difficult to compare firms. Given that TAAF focuses primarily on small- and medium-size firms that face multiple challenges, it is not entirely surprising that a significant number of firms that receive TAAF certifications are unable to complete the program. Yet, the TAAF program is successful in assisting many firms through a recovery process that can last from two to seven years, which suggests that the limited amount of funds available to trade-impacted firms through the TAAF program may amount to a relatively efficient policy tool.

In a final section, the FY2012 and FY2013 TAAF annual reports offer anecdotes collected from the TAACs that provide "success" stories about participating firms from all parts of the country and in various industries that used TAAF assistance. Although these examples may identify TAAC-provided assistance to select firms, they do not demonstrate the extent to which TAAF or the TAACs provided the assistance that may have been critical to the success of any one

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<sup>41</sup> EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2012*, p. 40.



particular firm to succeed where others do not. Whether some firms might have been able to adjust on their own cannot be determined.<sup>42</sup>

## **Legislation in the 113<sup>th</sup> Congress**

On July 24, 2013, Senator Max Baucus introduced the Trade Adjustment Assistance Expansion Act of 2013 (S. 1357). The bill would extend the version of TAA that expired on December 31, 2013, at current funding levels through 2020.

On March 6, 2014, Representative Adam Smith introduced the Trade Adjustment Assistance Act of 2014 (H.R. 4163), a bill to extend and expand TAA programs through 2020. The House bill differs from S. 1357 in that it would authorize \$50 million in annual appropriations for TAAF; would reinstate benefits for service workers and service-sector firms; and would also require the Secretary to reconsider any determination made before enactment of this act not to certify such workers or firms, and to certify them as eligible if they meet the specified requirements.

On July 30, 2013, President Obama announced his support for reauthorization of TAA programs and linked it to TPA. TAA renewal continues to spur heated debate in Congress. TAA reauthorizations tied to the granting of trade promotion authority have generally received strong support.

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<sup>42</sup> EDA, *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2012*, pp. 47-54, and *Annual Report to Congress on the Trade Adjustment Assistance for Firms Program for Fiscal Year 2013*, pp. 44-51.

## Appendix A. Simplified View of Trade in Global Value Chains

Goods and services are transformed into final products as they move through GVCs that are coordinated by MNCs. However, because statistical data on exports are reported in gross terms (the total value of the export, including the value that was added by each producer in countries spread along the value chain), the total value added is double counted (the gross value of the product is counted at each border crossing). According to the OECD, GVCs largely account for the rapid rise in double counting, which is implicit in current gross trade flows as intermediate goods and service cross borders many times.<sup>43</sup>

To address the issue of double counting, only those flows that are related to the value that is added (labor compensation, other taxes on production, and operating surplus or profits) by each country in the production of any good or service that is exported should be counted, rather than total gross trade flows. For example, if Malaysia exports \$100 in goods that have been produced entirely in Malaysia to China, which then further processes them, and in so doing adds \$10 in additional value to the goods before exporting them to the United States for final consumption, the total value-added by Malaysia and China amounts to \$110. Expressed in terms of gross trade flows, China has imported \$100 of goods from Malaysia and, in turn, China has exported \$110 in goods to the United States. However, in terms of gross trade flows the contribution to total world exports and imports of goods amount to \$210.<sup>44</sup> In fact, only \$110 in value-added has been generated in production and imported by the United States.<sup>45</sup>

Conventional trade measures obscure the origins of production that occurs within GVCs. One result is that the United States trade deficit with China appears to be \$110, while the trade deficit with Malaysia is \$0. If trade is measured in terms of value-added, the U.S. deficit with China would be \$10, while the U.S. trade deficit with Malaysia would be \$100. A key take-away is that gross bilateral trade deficits are useful as a measure of overall bilateral trade deficits, but are unhelpful (or even harmful) when attempting to unravel the sources of value-added trade. U.S. consumers, rather than Chinese consumers, are driving demand for Malaysia's products, and China's exports are dependent on intermediate imports from Malaysia. If protectionist measures are placed on imports from Malaysia, its exports and competitiveness could be adversely affected. Protectionist measures placed on China could produce ripple effects along the value chain with similar results. As the OECD notes:

...it is demand from North American consumers that drives the output throughout this global value chain. The aim of the trade in value added approach is therefore to identify the nature

<sup>43</sup> OECD, *Interconnected Economies: Benefiting from Global Value Chains*, September 2013, pp. 54-55.

<sup>44</sup> An additional complicating factor is that duties (which may be quite small) must be paid on the entire (gross) value of the product each time an intermediate good crosses a border. This leads to tariff amplification, a potentially serious problem when intermediate goods flow across a number of borders. The value of the product continually increases as value is added, as do tariffs (which are charged on the full value of a good rather than only the value added). The addition of tariffs on the gross value of the good at each border is incorporated into the price of the good and may ultimately be passed through to the consumer. Tariff amplification could be eliminated if only the value added by the exporting country was assessed by the importing country.

<sup>45</sup> Ibid.

of these inter-relationships by breaking the value of a given gross export down into its value-added components (by country of origin and industry).<sup>46</sup>

This approach allows policymakers to better understand the sources of value added. Without the data provided by the development of robust GVC statistics and the analysis that flows from such data, policies that are protectionist or result in trade retaliation could have a boomerang effect. If U.S. SMEs are major suppliers of intermediate goods to U.S. MNCs or U.S.-based foreign affiliates of MNCs that coordinate GVCs, U.S. trade restrictions or retaliation against foreign goods by a country that participates in the same GVC could cause direct harm to the GVC and damage the competitiveness of U.S. SMEs.

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<sup>46</sup> Ibid., p. 55.

## Appendix B. Acronyms

### Glossary

|              |  |
|--------------|--|
| <b>AP</b>    | Adjustment Proposal  |
| <b>ARRA</b>  | American Recovery and Reinvestment Act of 2009   |
| <b>BLS</b>   | Bureau of Labor Statistics (of the Department of Labor)  |
| <b>EDA</b>   | Economic Development Administration (of the Department of Commerce)  |
| <b>FTAs</b>  | Free trade agreements  |
| <b>GVCs</b>  | Global value chains  |
| <b>GAO</b>   | Government Accountability Office   |
| <b>MNCs</b>  | Multinational companies  |
| <b>OECD</b>  | Organization for Economic Cooperation and Development, a 34-member organization of the world's most advanced countries and emerging countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States. |
| <b>SMEs</b>  | Small and medium-sized enterprises   |
| <b>G20</b>   | The Group of Twenty, major advanced and emerging economies: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.   |
| <b>TAA</b>   | Trade Adjustment Assistance  |
| <b>TAAEA</b> | Trade Adjustment Assistance Extension Act of 2011  |
| <b>TAACs</b> | Trade Adjustment Assistance Centers  |
| <b>TAAF</b>  | Trade Adjustment Assistance for Firms  |
| <b>TGAAA</b> | Trade and Globalization Adjustment Assistance Act of 2009  |
| <b>USITC</b> | U.S. International Trade Commission  |

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