

# **International Trade and Finance: Overview and Issues for the 116<sup>th</sup> Congress**

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# International Trade and Finance: Overview and Issues for the 116<sup>th</sup> Congress

The U.S. Constitution grants authority to Congress to lay and collect duties and regulate foreign commerce. Congress exercises this authority in numerous ways, including through oversight of trade policy and consideration of legislation to implement trade agreements and authorize trade programs. Policy issues cover areas such as U.S. trade negotiations, U.S. trade and economic relations with specific regions and countries, international institutions focused on trade, tariff and nontariff barriers, worker dislocation due to trade liberalization, enforcement of trade laws and trade agreement commitments, import and export policies, international investment, economic sanctions, and other trade-related functions of the federal government. Congress also has authority over U.S. financial commitments to international financial institutions and oversight responsibilities for trade- and finance-related agencies of the U.S. government.

## Issues in the 116<sup>th</sup> Congress

During his first two years in office, President Trump has focused on reevaluating many U.S. international trade and economic policies and relationships. The President's focus on these issues could continue over the next two years. Broad policy debates during the 116<sup>th</sup> Congress may include the impact of trade and trade agreements on the U.S. economy, including U.S. jobs; the causes and consequences of the U.S. trade deficit; the implications of technological developments for U.S. trade policy; and the intersection of economics and national security. Among many others, the potentially more prominent issues in this area that the 116<sup>th</sup> Congress may consider are

- the use and impact of unilateral tariffs imposed by the Trump Administration under various U.S. trade laws, as well as potential legislation that alters the authority granted by Congress to the President to do so;
- legislation to implement the proposed United States-Mexico-Canada Trade Agreement (USMCA), which would revise and modernize the North American Free Trade Agreement (NAFTA);
- the Administration's launch of bilateral trade negotiations with the European Union, Japan, and the United Kingdom, as well as key provisions in trade agreements, including on intellectual property rights, labor, the environment, and dispute settlement;
- U.S. engagement with the World Trade Organization (WTO), proposals for WTO reform, and the future direction of the multilateral trading system;
- U.S.-China trade relations, including investment issues, intellectual property rights protection, forced technology transfer, currency issues, and market access liberalization;
- the future of U.S.-Asia trade and economic relations, given President Trump's withdrawal of the United States from the proposed Trans-Pacific Partnership (TPP) and China's expanding Belt and Road Initiative;
- the Administration's use of quotas to achieve some of its trade objectives, and whether these actions represent a shift in U.S. policy towards "managed trade";
- monitoring the implementation of legislation passed by the 115<sup>th</sup> Congress, including changes to the Committee on Foreign Investment in the United States (CIFUS) and export controls, as well as the creation of a new U.S. International Development Finance Corporation;
- re-authorization of the Export-Import Bank, the U.S. export credit agency that helps finance U.S. exports;
- oversight of international trade and finance policies to support foreign policy goals, including sanctions on Iran, North Korea, Russia, and other countries;

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- shifts in U.S. leadership of international economic policy coordination at the Group of 7 (G-7) and the Group of 20 (G-20) under the Trump Administration;
- legislation to fund the Administration's commitment to increase U.S. contributions to the World Bank, as well as potential U.S.-led reforms to the institution; and
- major developments in financial markets, including the impact of other countries' exchange rate policies on the U.S. economy, high levels of debt in emerging markets, potential economic crises, and the role of the U.S. dollar in the global economy.

# Contents

Overview .....	1
The United States in the Global Economy .....	2
The Role of Congress in International Trade and Finance .....	5
Trade Promotion Authority (TPA).....	6
Key U.S. Trade Policy Debates .....	7
Trade and U.S. Employment .....	8
U.S. Trade Deficit .....	9
Core Provisions in U.S. Trade Agreements.....	10
Managed Trade.....	11
Trade and Technology .....	12
Economics and National Security .....	13
Policy Issues for Congress.....	13
Tariff Actions by the Trump Administration .....	14
Tariffs on U.S. Imports from China (Section 301).....	15
Tariffs on U.S. Imports of Aluminum and Steel Products (Section 232).....	16
Tariffs on U.S. Imports of Washing Machines and Solar Products (Section 201) .....	17
Trading Partner Retaliation and Countermeasures .....	18
U.S.-China Trade and Key Issues.....	20
Industrial Policies and Made in China 2025 .....	21
China’s Policies on Technology, Innovation, and Intellectual Property .....	22
Belt and Road Initiative (BRI) .....	22
U.S. Bilateral and Regional Trade Agreements and Negotiations .....	23
U.S.-Mexico-Canada Agreement (USMCA) .....	25
U.S.-South Korea (KORUS) FTA Modifications .....	27
U.S.-European Union Trade Negotiations .....	28
U.S.-Japan Trade Negotiations .....	29
U.S.-United Kingdom Trade Negotiations.....	30
Proliferation of Non-U.S. Trade Agreements.....	31
The World Trade Organization (WTO) .....	32
Multilateral and Plurilateral Negotiations.....	33
Dispute Settlement .....	34
Challenges and Future Direction .....	35
Intellectual Property Rights.....	35
Labor and Environment.....	36
Select U.S. Import Policies .....	37
Trade Preferences.....	38
Trade Remedies.....	39
Miscellaneous Tariff Bills (MTBs) .....	40
International Investment.....	40
Committee on Foreign Investment in the United States (CFIUS) .....	41
International Investment Agreements (IIAs).....	42
U.S. Trade Finance and Promotion Agencies.....	44
Export-Import Bank of the United States (Ex-Im Bank) .....	44
Overseas Private Investment Corporation (OPIC) and the BUILD Act .....	45
Export Controls and Sanctions.....	46
Dual-Use Products and Export Controls .....	46

Economic Sanctions.....	47
International Financial Institutions (IFIs) and Markets.....	48
International Economic Cooperation (G-7 and G-20) .....	49
International Monetary Fund (IMF).....	50
Multilateral Development Banks (MDBs).....	50
Exchange Rates and Currency Manipulation.....	52
Role of the U.S. Dollar .....	53
Ongoing and Potential Economic Crises .....	53
Looking Forward.....	54

## Figures

Figure 1. Snapshot of the World Economy in 2017.....	3
Figure 2. U.S. Employment Supported by Exports .....	8
Figure 3. Annual U.S. Trade Affected by Recent Tariff Actions .....	15
Figure 4. Three Rounds of Implemented Tariffs Hikes .....	16
Figure 5. U.S. Exports Facing Retaliatory Tariffs .....	19
Figure 6. U.S.-China Merchandise Trade Balance: 2001-2018.....	20
Figure 7. U.S. Trade with Current and Proposed FTA Partners .....	24
Figure 8. U.S.-South Korea Trade .....	27
Figure 9. U.S.-EU Trade.....	28
Figure 10. U.S. Top Trading Partners in 2017.....	29
Figure 11. U.S.-UK Direct Investment.....	30
Figure 12. Trade Agreements Worldwide.....	31
Figure 13. Average Applied Most-Favored Nation (MFN) Tariffs.....	32
Figure 14. WTO Disputes Involving the United States.....	34
Figure 15. U.S. Antidumping and Countervailing Duty Orders by Country .....	40
Figure 16. U.S. International Investment Agreements .....	43
Figure 17. Ex-Im Bank Authorizations of Finance and Insurance Transactions .....	45
Figure 18. G-20 Members .....	49
Figure 19. Chinese Yuan per U.S. Dollar .....	52
Figure 20. Central Bank Reserves .....	53

## Tables

Table 1. U.S. Laws Related to Trump Administration Trade Actions .....	14
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## Contacts

Author Contact Information .....	55
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## Overview<sup>1</sup>

Members of Congress may address numerous ongoing and new policy issues in the 116<sup>th</sup> Congress. The changing dynamics and composition of international trade and finance can affect the overall health of the U.S. economy, the success of U.S. businesses and workers, and the U.S. standard of living. They also have implications for U.S. geopolitical interests. Conversely, geopolitical tensions, risks, and opportunities can have major impacts on international trade and finance. These issues are complex and at times controversial, and developments in the global economy often make policymaking more challenging. Congress is in a unique position to address these and other issues given its constitutional authority for legislating and overseeing international commerce.

The major focus of the 115<sup>th</sup> Congress was overseeing the Trump Administration's evolving trade policy. The Trump Administration's approach to international trade arguably represents a significant shift from the approaches of prior administrations, in that it questions the benefits of U.S. leadership in the rules-based global trading system and expresses concern over the potential limits that this system may place on U.S. sovereignty. As such, the Administration's withdrawal from the proposed Trans-Pacific Partnership (TPP), imposition of unilateral trade restrictions on various U.S. imports, renegotiation of the North American Free Trade Agreement (NAFTA), modification of certain provisions in the U.S.-South Korea (KORUS) free trade agreement (FTA), and launch of an extensive review of U.S. participation in the World Trade Organization (WTO) were among the most notable developments in U.S. trade policy in the past two years. Other issues before Congress included approving legislation to (1) strengthen the process used to review the national security implications of foreign direct investment transactions in the United States; (2) modernize U.S. development finance tools to help advance U.S. national security and economic interests and global influence; and (3) provide temporary tariff suspensions and reductions—through Miscellaneous Tariff Bills—on certain products not available domestically. Continued focus on economic sanctions against Russia, North Korea, Iran, Cuba, and other countries were also of interest to many in Congress.

The Trump Administration has displayed a more critical view than past administrations of U.S. trade agreements, made greater use of various U.S. trade laws with the potential to restrict U.S. imports, and focused on bilateral trade balances as a key metric of the health of U.S. trading relationships. As part of this shift in focus, the Administration has placed a greater emphasis on “fair” and “reciprocal” trade. China has also been a center of attention as the Administration has sought to address longstanding concerns over its policies on intellectual property (IP), forced technology transfer, and innovation. Citing these concerns and others, the President has unilaterally imposed trade restrictions on a number of U.S. imports under U.S. laws and authorities—most of which have been used infrequently since the establishment of the WTO in 1995. During the 115<sup>th</sup> Congress' second session, many Members weighed in on the President's actions. While some supported his use of unilateral trade measures, others raised concerns about potential negative economic implications of these actions and the risks they pose to the rules-based international trading system. Several Members introduced bills to amend some of the President's trade authorities—for example, to require congressional consultation or approval before imposing new trade barriers.

The implications of changes in the U.S. trade landscape for the 116<sup>th</sup> Congress will depend on a number of factors, including the impact of the Administration's trade actions—particularly increased tariffs—on U.S. industries, firms, workers, and supply chains; the reaction of U.S.

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<sup>1</sup> Written by Andres B. Schwarzenberg, Analyst in International Trade and Finance.

trading partners; and the extent to which future actions are in line with core U.S. commitments and obligations under the WTO and other trade agreements. The U.S.-China trade and economic relationship is complex and wide-ranging, and it will likely entail continued close examination by Congress. In addition to specific trade practices of concern, Congress scrutinize the economic and geopolitical implications of China's Belt and Road Initiative, which finances and develops infrastructure projects across a number of countries and regions. Congress may also examine the economic implications of China's industrial policies in high technology sectors, which could potentially challenge U.S. firms and disrupt global markets.

How these issues play out, combined with the evolving global economic landscape, raise potentially significant legislative and policy questions for Congress. The 116<sup>th</sup> Congress may consider (1) legislation to implement the U.S.-Mexico-Canada Agreement; (2) measures to reassert its constitutional authority over tariffs and other trade restrictions or to narrow the scope of how the president can use delegated authorities to impose such restrictions; (3) the extent to which past U.S. FTAs should be modernized or revised and, if so, in what manner; (4) what priority should be given to negotiating new U.S. FTAs with the European Union, the United Kingdom, Japan, and other trading partners, as well as the scope of negotiations; and (5) the impact of FTAs excluding the United States on U.S. economic and broader interests, and the appropriate U.S. response to the proliferation of such agreements. Another major issue is the role of the United States in the multilateral, rules-based trading system underpinned by the WTO. Historically, U.S. leadership in the global trading system has enabled the United States to shape the international trade agenda in ways that both advance and defend U.S. interests. The growing debate over the role and future direction of the WTO may raise important issues for Congress, such as how current and future WTO agreements affect the U.S. economy, the value of U.S. membership and leadership in the WTO, and the need to update or adapt WTO rules to reflect 21<sup>st</sup> century realities. Such updates might address the proliferation of global supply chains, advances in technology, new forms of trade barriers, and market-distorting government policies.

This report provides a broad overview of select topics in international trade and finance. It is not an exhaustive look at all issues, nor is it a detailed examination of any one issue. Rather, it provides concise background information of certain prominent issues that have been the subject of recent discussion and debate, and that may come before the 116<sup>th</sup> Congress. However, it does include references to more in-depth CRS products on the issues.

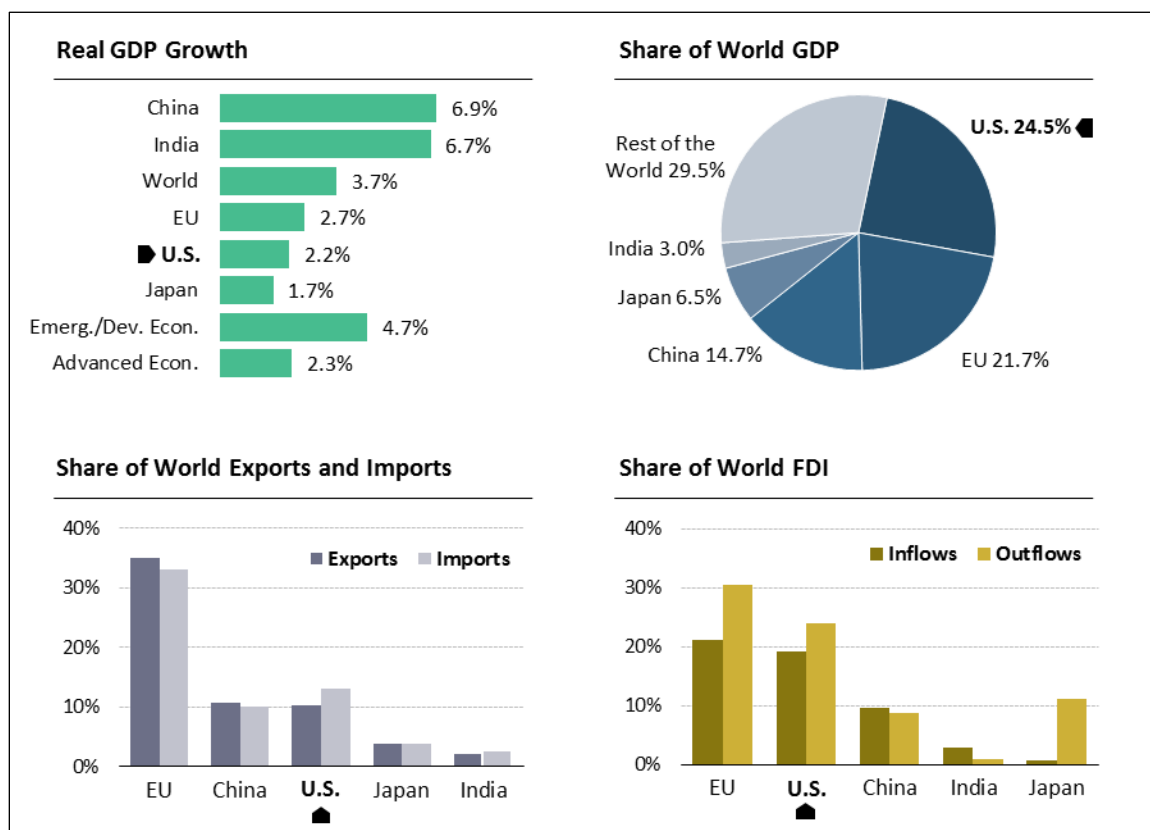
## **The United States in the Global Economy<sup>2</sup>**

In 2017, the global economy began to display signs of a synchronized recovery from the 2008-2009 global financial crisis and deep economic recession. The International Monetary Fund (IMF) estimates that real global gross domestic product (GDP) rose from 3.3% in 2016 to 3.7% in 2017 (**Figure 1**). As a group, advanced economies grew 2.3% (up from 1.7% in 2016),<sup>3</sup> while emerging market and developing economies grew 4.7% (up from 4.4% in 2016). The growth performance of major U.S. trading partners diverged widely in 2017, affecting both their bilateral trade and investment relations with the United States and their exchange rates against the U.S. dollar. Canada more than doubled its real GDP growth rate, from 1.4% in 2016 to 3.1% in 2017. China also continued to grow, albeit at a pace of 6.9% in 2017. Among the United States' top trading partners, India and Mexico experienced lower growth in 2017 than in 2016.

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<sup>2</sup> Written by Andres B. Schwarzenberg, Analyst in International Trade and Finance.

<sup>3</sup> The main criteria used by the International Monetary Fund to classify the world into "advanced economies" and "emerging market and developing economies" are (1) per capita income, (2) export diversification, and (3) degree of integration into the global financial system.

**Figure I. Snapshot of the World Economy in 2017**

**Source:** Figure created by CRS with data from the International Monetary Fund, *World Economic Outlook Database*, October 2018; World Bank, *World Development Indicators*, 2018; United Nations Conference on Trade and Development, *UNCTADstat*, 2018.

**Notes:** 2017 is the most recent year for which yearly data are available. *Real GDP Growth*: percent change in gross domestic product (GDP) from preceding year; *Share of World GDP*: each country's GDP as a share of world GDP (in current U.S. dollars); *Share of World Exports and Imports*: each country's total exports (imports) of goods and services as a share of total world exports (imports) of goods and services; *Share of World FDI*: each country's inward (outward) foreign direct investment (FDI) flows as a share of world inward (outward) FDI flows.

The IMF forecasts improved performance in the short-term from both advanced economies—2.1% for 2019—and emerging market and developing economies—4.7% in 2019.<sup>4</sup> This growth is projected to slow in the medium term, however, as output gaps close and advanced economies return to their potential output paths.<sup>5</sup> Beyond the short term, growth rates are expected to fall below pre-recession levels, as the aging populations and shrinking labor forces in advanced economies are expected to act as a drag on expansion. Overall fiscal policy is expected to remain

<sup>4</sup> The IMF highlights that “escalating trade tensions and the potential shift away from a multilateral, rules-based trading system are key threats to the global outlook... An intensification of trade tensions, and the associated rise in policy uncertainty, could dent business and financial market sentiment, trigger financial market volatility, and slow investment and trade. Higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare. More import restrictions would also make tradable consumer goods less affordable, harming low-income households disproportionately.” See International Monetary Fund, *World Economic Outlook: Challenges to Steady Growth*, World Economic and Financial Surveys, October 2018.

<sup>5</sup> The output or GDP “gap” is an economic measure of the difference between the actual output of an economy and its potential output. Potential output is the maximum amount of goods and services that an economy can turn out when it is most efficient—that is, at full capacity.” See Sarwat Jahan and Ahmed Saber Mahmud, “What is the Output Gap,” *Finance & Development*, Back to Basics, International Monetary Fund, September 2013.

expansionary in 2019, but begin to turn contractionary by 2020. Monetary policy may remain supportive in the Eurozone and Japan, but may continue to tighten in the United States—although the speed of U.S. monetary tightening has been thrown into question by recent economic and financial market developments. More broadly, global financial conditions are expected to remain generally accommodative.

Emerging markets (EMs) as a group face growing vulnerabilities to their economies due to uncertainties about global trade, depreciating currencies and risks of capital flight, volatile equity markets, large debts denominated in foreign currencies, and, in certain areas, the lack of deeper economic reform. Increased uncertainty over political and policy direction could constrain the rate of growth in Argentina, Brazil, Pakistan, Turkey, and South Africa. Additionally, China is expected to experience slower growth rates in the coming years, as the economy continues to rebalance away from investment toward private consumption, and from industry to services. The rise in China's nonfinancial debt as a share of GDP is likely to contribute to this downward trend. In Venezuela, the economy has collapsed, with the inflation rate forecast by the IMF to have exceeded 1,000,000% in 2018. In addition, declining commodity prices, particularly oil, could increase concerns in commodity-producing economies—many of them EMs—and destabilize national incomes. These and other developments could add to uncertainties in global financial markets, raise risks for U.S. banks of nonperforming loans, complicate the efforts of some banks to rebuild their capital bases, and potentially dampen prospects for long-term gains in productivity and higher rates of economic growth.

The United States continues to experience strong economic fundamentals and remains a relatively bright spot within the global economy, which could help it sustain its position as a main driver of global economic growth. With close to 5% of the world's population, it accounted for almost 25% of the world's output in nominal U.S. dollars, more than 10% of its exports (goods and services), and 16% of its growth in 2017.<sup>6</sup> The U.S. economy grew faster in 2017 than in 2016: U.S. real GDP increased 2.2% in 2017, up from 1.5% in 2016. The latest U.S. data show signs of continuing strong performance in 2018, with the IMF forecasting 2.9% growth and the U.S. Federal Reserve estimating growth between 2.9% and 3.2%.<sup>7</sup> Some forecasts indicate that U.S. growth could stop accelerating by 2019 due to higher commodity prices, upward inflationary pressures, monetary policy tightening by the U.S. Federal Reserve, trade policy uncertainties, and global risks.<sup>8</sup> Labor market data indicate that the United States is at—or close to—full employment, as the jobless rate reached 4.1% at the end of 2017 and is projected to have fallen below 4.0% in 2018. The decline in the price of oil is affecting not only the global economy, but also the U.S. economy. While the drop in energy prices may raise U.S. consumers' real incomes and improve the competitive position of some U.S. industries, these positive effects may be offset to some extent by a drop in employment and investment in the energy sector.

With the improving global economic outlook, the IMF and the WTO had projected a rebound in trade growth for 2018 and 2019. However, amid several downside risks, including rising trade tensions between major economies like the United States and China, and heightened trade policy uncertainty, the IMF and WTO now expect global trade growth to slow.<sup>9</sup> Restrictive trade policy

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<sup>6</sup> CRS calculation with data from the World Bank, World Development Indicators, and the International Monetary Fund, World Economic Outlook Database.

<sup>7</sup> U.S. Federal Reserve, "Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy," September 2018.

<sup>8</sup> See, among other studies, International Monetary Fund, *World Economic Outlook: Challenges to Steady Growth*, World Economic and Financial Surveys, October 2018.

<sup>9</sup> World Trade Organization, "World Trade Outlook Indicator signals further loss of momentum in trade growth into

measures imposed by the United States and some of its major trading partners may be affecting trade flows and prices in targeted sectors. Analysts claim that some recent policy announcements also have harmed business outlooks and investment plans, due to heightened concern over possible disruptions to supply chains and the risks of potential increases in the scope or intensity of trade restrictions.<sup>10</sup> The Organization for Economic Cooperation and Development (OECD) projects that a further rise in trade tensions may have additional adverse effects on global investment and jobs.<sup>11</sup>

In addition, exchange rates continue to experience volatility, with a number of currencies depreciating against the U.S. dollar, including the Chinese renminbi, Argentine peso, Turkish lira, and South African rand. Volatile currency and equity markets—combined with uncertainties over global trade and rates of inflation that remain below the target levels of a number of central banks—could further complicate current efforts of the U.S. Federal Reserve to continue tightening monetary policy. Other major economies, such as Eurozone and Japan, may continue to pursue unconventional monetary policies. Uncertainties in global financial markets could put additional upward pressure on the U.S. dollar, as investors may seek “safe haven” currencies and dollar-denominated investments. For some economies, volatile currencies and continued low commodity prices could add to debt issues, raising the prospect of defaults and potential economic crises.

## **The Role of Congress in International Trade and Finance<sup>12</sup>**

The U.S. Constitution assigns authority over foreign trade to Congress. Article I, Section 8, of the Constitution gives Congress the power to “lay and collect Taxes, Duties, Imposts, and Excises” and to “regulate Commerce with foreign Nations.” For the first 150 years of the United States, Congress exercised its power to regulate foreign trade by setting tariff rates on all imported products. Congressional trade debates in the 19<sup>th</sup> century often pitted Members from northern manufacturing regions, who benefitted from high tariffs, against those from largely southern raw material exporting regions, who gained from and advocated for low tariffs.

A major shift in U.S. trade policy occurred after Congress passed the highly protective “Smoot-Hawley” Tariff Act of 1930, which significantly raised U.S. tariff levels and led U.S. trading partners to respond in kind. As a result, world trade declined rapidly, exacerbating the impact of the Great Depression. Since the passage of the Tariff Act of 1930, Congress has delegated certain trade authority to the executive branch. First, Congress enacted the Reciprocal Trade Agreements Act of 1934, which authorized the President to enter into reciprocal agreements to reduce tariffs within congressionally pre-approved levels, and to implement the new tariffs by proclamation without additional legislation. Congress renewed this authority periodically until the 1960s. Subsequently, Congress enacted the Trade Act of 1974, aimed at opening markets and establishing nondiscriminatory international trade norms for nontariff barriers as well. Because changes in nontariff barriers in reciprocal bilateral, regional, and multilateral trade agreements may involve amending U.S. law, the agreements require congressional approval and implementing legislation. Congress has renewed or amended the 1974 Act five times, which includes granting “fast-track” trade negotiating authority. Since 2002, “fast track” has been

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Q4,” *World Trade Outlook Indicator*, November 26, 2018; International Monetary Fund, *World Economic Outlook: Challenges to Steady Growth*, World Economic and Financial Surveys, October 2018.

<sup>10</sup> Organization for Economic Cooperation and Development, “High Uncertainty Weighing on Global Growth,” September 20, 2018.

<sup>11</sup> *Ibid.*

<sup>12</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance.

known as trade promotion authority (TPA). In 2015, Congress authorized a new TPA through July 1, 2021 (see “Trade Promotion Authority (TPA)” below).

Congress also exercises trade policy authority through the enactment of laws authorizing trade programs and measures to address unfair and other trade practices. It also conducts oversight of the implementation of trade policies, programs, and agreements. These include such areas as U.S. trade agreement negotiations, tariffs and nontariff barriers, trade remedy laws, import and export policies, economic sanctions, and the trade policy functions of the federal government.

Over the years, Congress has authorized a number of trade laws that delegate a range of authorities to the President to investigate and take actions on imported goods for national security purposes (Section 232, Trade Expansion Act of 1962), trade remedies to counter dumping and subsidy practices by other countries, unfair trade practices (Section 301, Trade Act of 1974), or safeguard measures (Section 201, Trade Act of 1974). The Trump Administration is using these acts to impose steel and aluminum tariffs on major trading partners and for possible tariffs on vehicles and auto parts for national security purposes, and on a range of Chinese products for what the Administration deems as unfair trading practices including intellectual property theft and other practices. Some Members of Congress have opposed the use of these tariffs and in the 116<sup>th</sup> Congress may seek to revisit or curtail these statutes.

Additionally, Congress has an important role in international investment and finance policy. Under its treaty powers, the Senate considers bilateral investment treaties (BITs), and Congress sets the level of U.S. financial commitments to the multilateral development banks (MDBs), including the World Bank and the International Monetary Fund (IMF). It also funds the Office of the U.S. Trade Representative (USTR) and other trade agencies, and authorizes the activities of various agencies, such as the Export-Import Bank (Ex-Im Bank) and the Overseas Private Investment Corporation (OPIC). Congress also has oversight responsibilities over these institutions, as well as the Federal Reserve and the Department of the Treasury, whose activities can affect international capital flows and short-term movements in the international exchange value of the dollar. Congress also closely monitors developments in international financial markets that could affect the U.S. economy.

## **Trade Promotion Authority (TPA)<sup>13</sup>**

Trade Promotion Authority (TPA) is a primary means by which Congress asserts its constitutional authority over trade policy, particularly U.S. trade agreements. TPA—the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (P.L. 114-26)—which was signed by President Obama on June 29, 2015, is in place until July 1, 2021. Any agreement signed by that date, such as the United States-Mexico-Canada (USMCA), is eligible for consideration under TPA. TPA allows implementing bills submitted to Congress by the President for specific trade agreements to be considered under expedited legislative procedures—limited debate, no amendments, and an up or down vote—provided the President observes certain statutory obligations in negotiating trade agreements. These obligations include achieving progress in meeting congressionally defined U.S. trade policy negotiating objectives, as well as congressional notification and consultation requirements before, during, and after the completion of the negotiation process.

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<sup>13</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance. See CRS Report R43491, *Trade Promotion Authority (TPA): Frequently Asked Questions*, by Ian F. Fergusson and Christopher M. Davis; and CRS In Focus IF10038, *Trade Promotion Authority (TPA)*, by Ian F. Fergusson.

The primary purpose of TPA is to preserve the constitutional role of Congress with respect to the consideration of implementing legislation for trade agreements that require changes in domestic law, which includes tariffs, while also bolstering the negotiating credibility of the executive branch by ensuring that trade agreements will not be changed once concluded. Since the authority was first enacted in the Trade Act of 1974 (P.L. 93-618), Congress has renewed or amended TPA five times (1979, 1984, 1988, 2002, and 2015). In addition, TPA legislative procedures are considered rules of the House and Senate, and, as such, can be changed at any time. Precedent exists for implementing legislation to have its eligibility for expedited treatment under TPA removed by Congress. In 2019, Congress may use TPA to consider the USMCA or other agreements negotiated by the Administration.

#### TPA: Key Facts

- First enacted in 1974
- Renewed 4 times; amended once
- Used to consider 13 FTAs and two multilateral GATT/WTO rounds
- TPA 2015: In force until July 1, 2021

## Key U.S. Trade Policy Debates<sup>14</sup>

The United States has been a driving force in breaking down trade and investment barriers across the globe and constructing an open and rules-based global trading system through a wide range of international institutions and agreements. Since 1934, U.S. policymakers across political parties have recognized the importance of pursuing trade policies that promote more open, rules-based, and reciprocal international commerce, while being cognizant of potential costs to specific segments of the population, particularly through greater competition.<sup>15</sup> Although there is a general consensus that, in the aggregate, the overall economic benefits of reducing barriers to trade and investment outweigh the costs, the processes of trade and financial liberalization, and of globalization more broadly, have presented both opportunities and challenges for the United States. Many U.S. consumers, workers, firms, and industries have benefited from increased trade. On the consumption side, U.S. households have enjoyed lower product prices and a broader variety of goods and services—some of which the United States does not produce in large quantities. On the production side, stronger linkages to the global economy force U.S. industries and firms to focus on areas in which they have a comparative advantage, provide them with export and import opportunities, enable them to realize economies of scale, and encourage them to innovate.

At the same time, some stakeholders argue that globalization is not inclusive, benefiting some more than others. They point to job losses, stagnant wages, and rising income inequality among some groups—as well as to environmental degradation—as indicators of the negative impact of globalization on the U.S. economy, although the causes of these trends are highly contested. Some policymakers also perceive growing bilateral U.S. trade deficits as evidence that U.S. trade with other nations is “uneven” or that foreign countries engage in “unfair” trade practices. Others view many of the existing global trade rules as outdated, since they do not reflect the realities of the 21<sup>st</sup> century—particularly when it comes to technological advances, new forms of trade (such as digital trade), and threats that international trade may pose to U.S. national security. Finally, some experts argue that the 2008-2009 financial crisis caused painful adjustment and costs for

<sup>14</sup> Written by Andres B. Schwarzenberg, Analyst in International Trade and Finance.

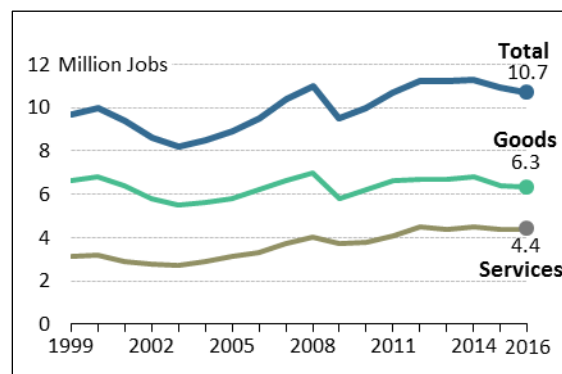
<sup>15</sup> The Reciprocal Tariff Act of 1934 marked a sharp departure from an era of protectionism in the United States and fundamentally changed the politics of U.S. trade policy by strengthening domestic political support for freer trade. (For more detail, see Douglas A. Irwin, *Free Trade Under Fire*, Princeton, NJ: Princeton University Press, 2002.)

some segments of the population, which have exacerbated concerns related to U.S. trade policy and have led to increased domestic nationalism.

A longstanding objective of some Members of Congress and administrations has been to achieve a “level playing field” for U.S. industries, firms, and workers, and to preserve the United States’ high standard of living—all while remaining innovative, productive, and internationally competitive, as well as safeguarding those stakeholders who otherwise may be left behind in a fast-changing global economy. Given Congress’ constitutional authority over U.S. trade policy, Members are in a unique position to influence, legislate, and oversee responses that support these goals and that reduce or soften the hardships and costs from international trade.

## Trade and U.S. Employment<sup>16</sup>

**Figure 2. U.S. Employment Supported by Exports**



**Source:** Figure created by CRS with data from the U.S. Department of Commerce’s International Trade Administration.

A key question in policy debates over international trade is its impact on U.S. jobs. Trade is one among a number of forces that drive changes in employment, wages, the distribution of income, and ultimately the U.S. standard of living. Most economists argue that macroeconomic forces within an economy, including technological and demographic changes, are the dominant factors that shape trade and foreign investment relationships and complicate efforts to disentangle the distinct impact that trade has on the economy. In a dynamic economy like that of the United States, jobs are constantly being created and replaced as some economic activities expand, while others contract. Various measures are used to estimate the role and impact of trade in the economy and of trade on employment. One measure developed by the U.S. Department of Commerce concludes that, as of 2016 (the most recent year for which data is available), exports support, directly and indirectly, 10.7 million jobs in the U.S. economy: 6.3 million in the goods-producing sectors and 4.4 million in the services sector (**Figure 2**). According to these estimates, jobs associated with international trade, especially jobs in export-intensive manufacturing industries, earn 18% more on a weighted average basis than comparable jobs in other manufacturing industries.<sup>17</sup>

<sup>16</sup> Written by James K. Jackson, Specialist in International Trade and Finance. See CRS Report R44546, *The Economic Effects of Trade: Overview and Policy Challenges*, by James K. Jackson; and CRS In Focus IF10161, *International Trade Agreements and Job Estimates*, by James K. Jackson.

<sup>17</sup> Chris Rasmussen, “Jobs Supported by Exports 2016: An Update,” International Trade Administration, U.S. Department of Commerce, August 2, 2017.

Trade and trade liberalization can have a differential effect on workers and firms in the same industry. Some estimates indicate that the short-run costs to workers who attempt to switch occupations or switch industries in search of new employment opportunities may experience substantial effects. One study concluded that workers who switched jobs as a result of trade liberalization generally experienced a reduction in their wages, particularly in occupations where workers performed routine tasks.<sup>18</sup> These negative income effects were especially pronounced in occupations exposed to imports from low-income countries. In contrast, occupations associated with exports experienced a positive relationship between rising incomes and growth in export shares. As a result of the differing impact of trade liberalization on workers and firms, Congress created Trade Adjustment Assistance (TAA) programs to mitigate the potential adverse effects of trade liberalization on workers, firms, and farmers (see text box below).

### Trade Adjustment Assistance<sup>19</sup>

Trade Adjustment Assistance (TAA) is a group of programs that provide federal assistance to parties that have been adversely affected by foreign trade. TAA programs are authorized by the Trade Act of 1974, as amended, and were last reauthorized by the Trade Adjustment Assistance Reauthorization Act of 2015 (TAARA; Title IV of P.L. 114-27).

The largest TAA program, TAA for Workers (TAAW), provides federal assistance to workers who have been separated from their jobs because of increases in directly competitive imports or because their jobs moved to a foreign country. The largest components of the TAAW program are (1) funding for career services and training to prepare workers for new occupations and (2) income support for workers who are enrolled in an eligible training program and have exhausted their unemployment compensation. In most cases, the benefits available to TAAW-eligible workers are more robust than those available to other unemployed workers. The TAAW program is administered at the federal level by the U.S. Department of Labor and FY2019 appropriations were \$790 million.

In addition to the workers program, TAA programs are also authorized for firms and farmers that have been adversely affected by international competition. TAA for Firms is administered by the U.S. Department of Commerce and the FY2018 appropriation was \$13 million. (As of this writing, the final FY2019 appropriation had not been enacted.) The TAA for Farmers program was reauthorized by TAARA, but the program has not received an appropriation since FY2011.

TAA programs have historically been reauthorized in conjunction with other expansionary trade policies. For example, TAARA was enacted alongside renewal of the Trade Promotion Authority in 2015. Supporters of TAA view it as a means of offsetting some of the negative domestic effects of increased imports and increased offshoring that may result from expansionary trade policy. Some TAA supporters have proposed further expanding TAAW eligibility, such as including domestic workers who are adversely affected by reduced exports due to tariffs. Opponents of TAA typically view the program as duplicative, noting that trade-affected workers can be served by more general workforce programs that serve all unemployed workers.

## U.S. Trade Deficit<sup>20</sup>

The overall U.S. trade deficit, or more broadly the current account balance, represents an accounting principle that expresses the difference between the country's exports and imports of goods and services. The United States has experienced annual current account deficits since the mid-1970s. Congressional interest in the trade deficit has been heightened by the Trump

<sup>18</sup> Artuc, Erhan, and John McLaren, *Trade Policy and Wage Inequality: A Structural Analysis With Occupational and Sectoral Mobility*, Policy Research Working Paper, The World Bank, September, 2012, p. 35.

<sup>19</sup> Written by Benjamin Collins, Analyst in Labor Policy. See CRS Report R44153, *Trade Adjustment Assistance for Workers and the TAA Reauthorization Act of 2015*, by Benjamin Collins; CRS Report RS20210, *Trade Adjustment Assistance for Firms*, by Rachel F. Fefer; and CRS Report R40206, *Trade Adjustment Assistance for Farmers*, by Mark A. McMinimy.

<sup>20</sup> Written by James K. Jackson, Specialist in International Trade and Finance. See CRS In Focus IF10619, *The U.S. Trade Deficit: An Overview*, by James K. Jackson, and CRS Report R45243, *Trade Deficits and U.S. Trade Policy*, by James K. Jackson.

Administration's approach to international trade. The Administration has used the U.S. trade deficit as a barometer for evaluating the success or failure of the global trading system, U.S. trade policy, and U.S. trade agreements. It has characterized the trade deficit as a major factor in a number of perceived ills afflicting the U.S. economy—including the rate of unemployment and slow gains in wages—and partially as the result of unfair trade practices by foreign competitors.

Many economists, however, argue that this characterization misrepresents the nature of the trade deficit and the role of trade in the U.S. economy. In general, traditional economic theory holds that the overall U.S. trade deficit stems from U.S. macroeconomic policies and an imbalance between saving and investment in the U.S. economy. Currently, the demand for capital in the U.S. economy outstrips the amount of gross savings supplied by households, firms, and the government (a savings-investment imbalance). Therefore, many observers argue that attempting to alter the trade deficit without addressing the underlying macroeconomic issues would be counterproductive and create distortions in the economy. A concern expressed by some analysts and policymakers is the debt accumulation associated with sustained trade deficits. They argue that the long-term impact on the U.S. economy of borrowing to finance imports depends on whether those funds are used for greater investments in productive capital with high returns that raise future standards of living, or whether they are used for current consumption. These concerns and the various policy approaches that have been used to alter the savings-investment imbalance in the economy are beyond the scope of this report.

## Core Provisions in U.S. Trade Agreements<sup>21</sup>

U.S. free trade agreements (FTAs) generally are negotiated on the basis of U.S. trade negotiating objectives established by Congress under Trade Promotion Authority (TPA). U.S. FTAs have evolved in the scope and depth of their commitments since the 1980s.<sup>22</sup> Since the first bilateral U.S. FTA with Israel, which is only 14 pages in length and focused primarily on the elimination of tariffs, the United States has pursued increasingly comprehensive and enforceable commitments. The North American Free Trade Agreement (NAFTA), which entered into force in 1994, was the first FTA that incorporated many of the rules in more recent U.S. FTAs. It initiated a new generation of U.S. trade agreements in the Western Hemisphere and other parts of the world, influencing negotiations in areas such as market access, rules of origin, intellectual property rights (IPR), foreign investment, and dispute resolution. It was the first trade agreement to include provisions on IPR protection, labor, and the environment. Although not all FTAs are exactly the same, core provisions incorporated into most U.S. FTAs include the following:

- **Tariffs and Market Access.** Elimination of most tariffs and nontariff barriers on goods, services, and agriculture over a period of time, and specific rules of origin requirements.
- **Services.** Commitments on national treatment, most-favored nation (MFN) treatment, and prohibition of local presence requirements.
- **IPR Protection.** Minimum standards of protection and enforcement for patents, copyrights, trademarks, and other forms of IPR. FTAs after NAFTA have new commitments reflecting standard protection similar to that found in U.S. law.

<sup>21</sup> Written by M. Angeles Villarreal, Specialist in International Trade and Finance. See CRS Report R45198, *Bilateral and Regional Trade Agreements: Issues for Congress*, by Brock R. Williams.

<sup>22</sup> See CRS Report R45198, *Bilateral and Regional Trade Agreements: Issues for Congress*, by Brock R. Williams, CRS Report R44981, *NAFTA Renegotiation and Modernization*, by M. Angeles Villarreal and Ian F. Fergusson, and CRS Report R44044, *U.S. Trade with Free Trade Agreement (FTA) Partners*, by James K. Jackson.

- **Foreign Investment.** Removal of investment barriers, basic protections for investors, with exceptions, and mechanisms for dispute settlement.
- **Labor and Environmental Provisions.** Commitments to enforce one's own laws in NAFTA evolved to commitments in later FTAs to adopt, maintain, and not derogate from laws incorporating specific standards, among other provisions.
- **Government Procurement.** Commitments to provide certain levels of access to and nondiscriminatory treatment in parties' government procurement markets.
- **Dispute Settlement.** Provisions for dispute settlement mechanism to resolve disputes regarding each party's adherence to agreement obligations.
- **Other Provisions.** Other core provisions have included those related to competition policy, monopolies, and state enterprises, sanitary and phytosanitary standards, safeguards, technical barriers to trade, transparency, and good governance.

Before an FTA can enter into force, it must be ratified by the governments of parties involved. In the United States, Congress must approve an FTA before it can enter into force. Before voting on an agreement, Congress may review whether the objectives it set out in TPA legislation were followed in the negotiation of the agreement, evaluate the overall economic effect on the U.S. economy, including through a mandated report by the U.S. International Trade Commission (ITC), determine whether the agreement would promote U.S. standards such as IPR, labor, and the environment in other countries, or consider the enforceability of the agreement and its rules.

## Managed Trade<sup>23</sup>

During 2018, the Trump Administration turned to quotas and quota-like arrangements to achieve some of its trade objectives. It negotiated potential quotas on autos through side letters to the proposed United States-Mexico-Canada Agreement (USMCA), as well as quota arrangements that allowed South Korea, Brazil, and Argentina to avoid U.S. tariff increases on steel and aluminum imports. Some Members of Congress and analysts have questioned whether these actions represent an undesirable shift in U.S. trade policy—towards one that some analysts have labeled managed trade. Managed trade generally refers to government efforts to achieve measurable results by establishing—through quantitative restrictions on trade and other numerical targeted approaches—specific market shares or targets for certain products. These are met through mutual agreement or under threat of trade action (e.g., increased tariffs). The 116<sup>th</sup> Congress may wish to examine the extent to which the Administration is adopting such an approach, including its effectiveness and impact on U.S. and international trade.

Advocates of managed trade policies contend that, by negotiating results-oriented agreements and using the size of the U.S. economy as leverage, the United States can ensure that trade with certain trading partners is “fair,” “balanced,” and “reciprocal.” In addition, they argue, it will force countries to change their distortive economic policies, decrease the size of the U.S. trade deficit and, by reducing U.S. imports, help strengthen certain U.S. industries and boost U.S. employment. Other policymakers view these measures as protectionist and harmful to the economy. Many economists question the efficacy of prodding U.S. trading partners into negotiating or accepting quotas or numerical targets, as well as the ability of the state, rather than market forces, to provide the most efficient allocation of scarce resources—even when attempting

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<sup>23</sup> Written by Andres B. Schwarzenberg, Analyst in International Trade and Finance. See CRS In Focus IF11035, *Managed Trade and Quantitative Restrictions: Issues for Congress*, by Wayne M. Morrison and Andres B. Schwarzenberg.

to respond to trade-distorting measures by trading partners. They also note that policies that restrict U.S. imports and boost U.S. exports may not decrease the overall size of the U.S. trade deficit, as it is primarily the result of macroeconomic forces—namely the low level of U.S. savings relative to total investment. According to some observers, a move away from a market-driven, multilateral rules-based system to one driven by numerical outcomes and targets could lead to increasing trade restrictions, retaliation or replication by other countries, higher prices, lower global economic growth, and the erosion of the international trading system.

## **Trade and Technology<sup>24</sup>**

The rapid growth of digital technologies has created new opportunities for U.S. consumers and businesses but also new challenges in international trade. For example, consumers today access e-commerce, social media, telemedicine, and other offerings not available thirty years ago. Businesses use advanced technology to reach new markets, track global supply chains, analyze big data, and create new products and services. New technologies facilitate economic activity but also create new trade policy questions and concerns.

Recent international negotiations have sought to improve and remove barriers to market access for trade in digital goods and services and also address other concerns, such as cybersecurity and privacy protection. Internationally-traded information and communication technologies (ICT) products, whether physical goods (e.g., laptops) or emerging technologies, including algorithms and artificial intelligence, may be subject to traditional trade barriers such as tariffs or export controls. Nontariff barriers impede U.S. firms' market access by limiting what companies can offer or how they can operate in a foreign market, such as requiring local content or partners. Internet sovereignty is a challenge for firms who seek market access in countries where the government strictly controls what digital data is permitted within its borders, such as what information people can access online. Another often-cited digital trade barrier is data localization requirements or cross-border data flows restrictions that policymakers may enact to promote safety, security, privacy or favor domestic firms but that raise costs and risks for foreign firms.<sup>25</sup> Technology transfer requirements and cybersecurity issues include the infringement of intellectual property and theft of trade secrets, economic espionage, and may touch on national security concerns.

The 116<sup>th</sup> Congress may consider a variety of issues related to technology and trade. These include provisions in the proposed United States-Mexico-Canada Agreement (USMCA), U.S. participation in e-commerce negotiations at the World Trade Organization (WTO), evolving online privacy policies in the United States and other countries, as well as concerns about trade with China, such as those outlined in the Trump Administration's investigation under Section 301 of the Trade Act of 1974 (see section on Tariff Actions by the Trump Administration).

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<sup>24</sup> Written by Rachel F. Fefer, Analyst in International Trade and Finance. See CRS In Focus IF10770, *Digital Trade*, by Rachel F. Fefer.

<sup>25</sup> Localization measures are defined as measures that compel companies to conduct certain digital-trade-related activities within a country's borders. Governments often use privacy or national security arguments as justifications for these measures. Though localization policies can be used to achieve legitimate public policy objectives, some are designed to protect, favor, or stimulate domestic industries, service providers, or intellectual property at the expense of foreign counterparts and, in doing so, function as nontariff barriers to market access. See CRS Report R44565, *Digital Trade and U.S. Trade Policy*, coordinated by Rachel F. Fefer.

## Economics and National Security<sup>26</sup>

U.S. officials have long recognized that U.S. economic interests are vital to national security concerns and have considered the concepts of “geoeconomics”<sup>27</sup> and “economic statecraft” in relation to national security strategy.<sup>28</sup> Broadly speaking, these terms refer to the political consequences of economic decisions or the economic consequences of political trends and the dynamics of national power.

In recent years, a combination of domestic and international forces are challenging the U.S. leadership role in ways that are unprecedented in the post-World War II era. For some observers, these challenges are not just about economic growth and international economic engagement, but directly affect U.S. national security. In their view, China’s growing economic competition for leading-edge technologies, in particular, challenges not only U.S. commercial interests, but potentially threatens U.S. national security interests.

According to some observers, since taking office, the Trump Administration has promoted a form of national security that mixes trade and economic relationships with national security, defense, and foreign policy objectives in ways that seem more confrontational than cooperative, more unilateral than multilateral, and more central to its overall agenda than in previous administrations. For example, the Trump Administration has used the U.S. trade deficit and import tariffs to support the defense industrial base by placing tariffs on the imports of strategic security partners as a form of national economic security. Despite existing National Security Strategy (NSS) reports and previous executive branch efforts, there is a view that the United States lacks a holistic, whole-of-government approach for thinking about economic challenges and opportunities in relation to U.S. national security.<sup>29</sup> To that end, on April 25, 2018, Senators Young, Merkley, Rubio and Coons introduced S. 2757, the *National Economic Security Strategy Act of 2018* to “ensure Federal policies, statutes, regulations, procedures, data gathering, and assessment practices are optimally designed and implemented to facilitate the competitiveness, prosperity, and security of the United States.” This and similar legislation may be introduced in the 116<sup>th</sup> Congress.

## Policy Issues for Congress

Policy debates during the 116<sup>th</sup> Congress may include the use and impact of unilateral tariffs imposed by the Trump Administration under various U.S. trade laws, as well as potential legislation that alters the authority granted by Congress to the President to do so; U.S.-China trade relations; legislation to implement the proposed United States-Mexico-Canada Trade Agreement (USMCA); and the Administration’s launch of bilateral trade negotiations with the European Union, Japan, and the United Kingdom, among many others. The following section provides a broad overview of the potentially more prominent issues in international trade and finance that the 116<sup>th</sup> Congress may consider.

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<sup>26</sup> Written by James K. Jackson and Martin A. Weiss, Specialists in International Trade and Finance.

<sup>27</sup> Luttwak, Edward, “From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce,” *The National Interest*, Summer 1990, pp. 17-23.

<sup>28</sup> Baldwin, David, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985).

<sup>29</sup> American Bar Association, *Economics and National Security: Six Questions for the Next Administration*, January 9, 2017, [https://www.americanbar.org/content/dam/aba/administrative/law\\_national\\_security/Economics%20and%20National%20Security%20\(final\).authcheckdam.pdf](https://www.americanbar.org/content/dam/aba/administrative/law_national_security/Economics%20and%20National%20Security%20(final).authcheckdam.pdf).

## Tariff Actions by the Trump Administration<sup>30</sup>

Concerns over trading partner trade practices, the U.S. trade deficit, and potential negative effects of U.S. imports have been a focus of the Trump Administration. Citing these concerns and others, the President has imposed increased tariffs under (1) Section 201 of the Trade Act of 1974 on U.S. imports of washing machines and solar products; (2) Section 232 of the Trade Expansion Act of 1962 on U.S. imports of steel and aluminum, and potentially autos and uranium, and (3) Section 301 of the Trade Act of 1974 on U.S. imports from China. Congress delegated aspects of its constitutional authority to regulate foreign commerce to the President through these trade laws. They allow presidential action, based on agency investigations and other criteria, to impose import restrictions to address specific concerns (**Table 1**). They have been used infrequently in the past two decades, in part due to the 1995 creation of the World Trade Organization (WTO) and its dispute settlement system.

**Table 1. U.S. Laws Related to Trump Administration Trade Actions**

<b>Section 201</b> Trade Act of 1974	Allows the President to impose temporary duties and other trade measures if the U.S. International Trade Commission (ITC) determines a surge in imports is a <b>substantial cause or threat of serious injury</b> to a U.S. industry.
<b>Section 232</b> Trade Expansion Act of 1962	Allows the President to take action to adjust imports of products the U.S. Department of Commerce finds to be imported into the United States in such quantities or under such circumstances as to <b>threaten to impair U.S. national security</b> .
<b>Section 301</b> Trade Act of 1974	Allows the U.S. Trade Representative (USTR) to suspend trade agreement concessions or impose import restrictions if it determines a U.S. trading partner is <b>violating trade agreement commitments or engaging in discriminatory or unreasonable practices that burden or restrict U.S. commerce</b> .

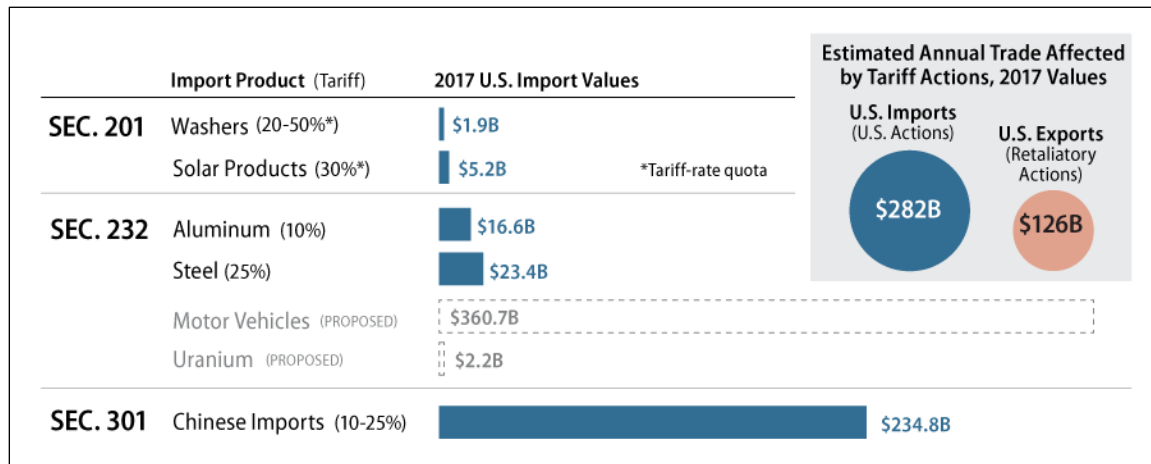
Annual U.S. imports of goods subject to the additional tariffs, which range from 10% to 50%, totaled \$282 billion in 2017 (**Figure 3**).<sup>31</sup> All formally proposed tariffs are now in effect. The President has informally raised the prospect of tariffs on an additional \$267 billion of U.S. annual imports from China, and, pending a Section 232 investigation expected to be finalized in early 2019, additional tariffs on approximately \$361 billion of U.S. auto and parts imports. While the tariffs benefit import-competing U.S. producers, they also increase costs for downstream users of imported products (e.g., auto producers using steel in cars) and consumers. In response to the U.S. actions, several U.S. trading partners have initiated WTO dispute settlement proceedings and imposed retaliatory tariffs on goods accounting for \$126 billion of annual U.S. exports in 2017, causing export declines in targeted industries.<sup>32</sup>

Congressional views on the tariffs differ, but many Members have raised concerns over their potential negative economic implications and the process for seeking exclusions to tariffs. Some also question whether the President's actions adhere to the intent of the trade laws used. The 115<sup>th</sup> Congress held a number of hearings on the effects and implementation of the tariffs, and several Members introduced legislation that would have altered the President's current authorities. The issue may be the subject of further debate and possible legislative activity in the 116<sup>th</sup> Congress.

<sup>30</sup> Written by Brock R. Williams, Specialist in International Trade and Finance. See CRS Insight IN10943, *Escalating Tariffs: Timeline*, coordinated by Brock R. Williams, and CRS Insight IN10971, *Escalating Tariffs: Potential Impacts*, coordinated by Brock R. Williams.

<sup>31</sup> CRS calculation based on 2017 U.S. import data from the Census Bureau.

<sup>32</sup> CRS calculation based on 2017 partner country import data from Global Trade Atlas.

**Figure 3. Annual U.S. Trade Affected by Recent Tariff Actions**

**Source:** CRS calculations based on U.S. import data from the U.S. Department of Commerce's Census Bureau and partner country import data from Global Trade Atlas (U.S. exports).

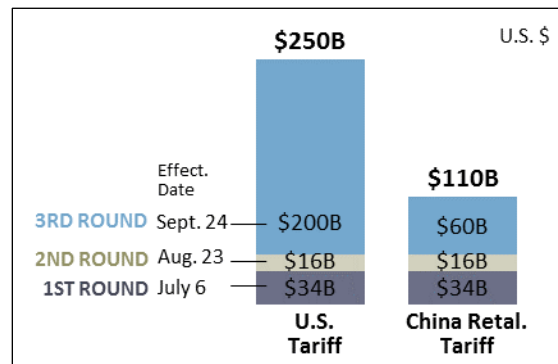
**Notes:** The figures above are based on 2017 import values to provide an approximation of the annual trade volumes potentially affected by the tariffs. U.S. and retaliatory tariff actions took effect at various times in 2018.

### Tariffs on U.S. Imports from China (Section 301)<sup>33</sup>

Sections 301 of the Trade Act of 1974, as amended, is one of the principal statutory means by which the United States addresses “unfair” foreign barriers to U.S. exports. Concerns over China’s policies on intellectual property (IP), technology, and innovation led the Trump Administration to launch a “Section 301” investigation in August 2017. In March 2018, President Trump signed a memorandum justifying U.S. action against China under Section 301. In its justification, the Administration focused on: 1) various Chinese policies that force or pressure technology transfers from U.S. companies to a Chinese entity; 2) China’s unfair technology licensing practices that prevent U.S. firms from achieving market-based returns for their IP; 3) China’s investments and acquisitions which generate large-scale technology and IP transfer to support China’s industrial policy goals; and 4) China’s cyber intrusions into U.S. computer networks to gain access to valuable business information.

On June 15, the U.S. Trade Representative (USTR) announced a two-stage plan to impose 25% *ad valorem* tariffs on \$50 billion worth of Chinese imports. On June 16, China issued its own two-stage retaliation plan against the United States. In response, on June 18, President Trump directed the USTR to propose a new list of products worth \$200 billion that would be subject to increased 10% tariffs if China retaliated (stage 3). The first two stages of U.S. 25% tariff hike measures went into effect on July 6 and August 23. China implemented comparable countermeasures on U.S. products. On September 24, the Trump Administration imposed 10% increased tariffs on additional Chinese imports (stage 3), which were to increase to 25% on January 1, 2019 (now on hold). In response, China raised tariffs (by 5% and 10%) on \$60 billion worth of imports from the United States (**Figure 4**). The Trump Administration created a process to enable affected U.S. firms to petition for an exclusion from some of the tariff increases.

<sup>33</sup> Written by Wayne Morrison, Specialist in Asian Trade and Finance. See CRS In Focus IF10708, *Enforcing U.S. Trade Laws: Section 301 and China*, by Wayne M. Morrison.

**Figure 4. Three Rounds of Implemented Tariffs Hikes**

**Source:** Figure created by CRS with data from the Office of the U.S. Trade Representative and China's Ministry of Commerce.

**Note:** Tariff rates vary.

A bilateral meeting between Presidents Trump and Xi at the conclusion of the December 2018 G-20 summit in Argentina may have laid groundwork for addressing the tariff escalation. The two leaders agreed to begin negotiations on “structural changes” on IP and technology issues, along with agriculture services, with the goal of achieving an agreement in 90 days. The White House reported that China agreed to make “very substantial” (though unspecified) purchases of U.S. agricultural, energy, and industrial products.<sup>34</sup> President Trump agreed to suspend the tariff rate increases planned for January 1, 2019, unless no agreement is reached in 90 days. On December 13, the U.S. Department of Agriculture reported that China had agreed to purchase 1.13 million metric tons of U.S. soybeans.<sup>35</sup>

While some policymakers and many business representatives have expressed support for the Administration's goals of improving China's IP and technology policies, they question whether tariff hikes against China can achieve those goals. Several Members of Congress have raised concerns over the impact the current trade conflict is having on their constituents in terms of higher-priced imports from China and lost U.S. export sales.

### Tariffs on U.S. Imports of Aluminum and Steel Products (Section 232)<sup>36</sup>

Section 232 of the Trade Expansion Act of 1962 (as amended) is sometimes called the “national security clause,” because it provides the President with the ability to impose restrictions on certain imports that the U.S. Department of Commerce determines threaten to impair the national security.<sup>37</sup> If requested, or upon self-initiation, Commerce investigates the import of specific product(s) and, if it determines in the affirmative, and if the President concurs, he may adjust the subject imports using tariffs, quotas, or other measures to offset the adverse effect. Section 232

<sup>34</sup> The White House, *Statement from the Press Secretary Regarding the President's Working Dinner with China*, December 1, 2018, at <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-presidents-working-dinner-china/>.

<sup>35</sup> U.S. Department of Agriculture, *Newsroom*, December 23, 2018.

<sup>36</sup> Written by Rachel F. Fefer and Vivian C. Jones. See CRS In Focus IF10667, *Section 232 of the Trade Expansion Act of 1962*, by Rachel F. Fefer and Vivian C. Jones and CRS Insight IN10865, *Commerce Determines Steel and Aluminum Imports Threaten to Impair National Security*, by Rachel F. Fefer and Vivian C. Jones.

<sup>37</sup> P.L. 87-794; 19 U.S.C. §1862.

sets out timelines and procedures for the investigation and that the President must follow once a decision is made. The executive branch has broad discretion in Section 232 cases to define the scope of the investigation, and the World Trade Organization (WTO) allows members to take measures in order to protect “essential security interests.”<sup>38</sup>

Based on concerns about ongoing global overcapacity and certain trade practices, in April 2017, the Trump Administration initiated Section 232 investigations on U.S. steel and aluminum imports. Effective March 23, 2018, President Trump applied 25% and 10% tariffs, respectively, on certain steel and aluminum imports.<sup>39</sup> In order to limit potential negative domestic effects of the tariffs on U.S. businesses and consumers, Commerce established a process for product exclusions requests and has received over 49,000 requests (including resubmissions) as of October 28, 2018.<sup>40</sup> While the President negotiated tariff exemptions and quota arrangements with Brazil, South Korea, Argentina, and Australia, the proposed United States-Mexico-Canada Agreement (USMCA) did not resolve or address the Section 232 tariffs on imported steel and aluminum from Canada and Mexico. Multiple U.S. trading partners are challenging the tariffs under WTO dispute settlement rules and have threatened or enacted retaliatory measures, risking potential escalation of retaliatory tariffs. In turn, the United States has argued that trading partners’ counter tariffs in response to the U.S. Section 232 measures cannot be justified under WTO rules, and the United States filed its own WTO complaints over the retaliatory tariffs by at least six countries.<sup>41</sup>

As Congress continues to debate the Administration’s Section 232 actions, it may consider multiple issues including potential amendments to the delegation of constitutional authority that Congress gave to the President through Section 232, examining the investigation and implementation processes, and exploring opportunities to address specific market-distorting practices that are the root causes of steel and aluminum overcapacity through international forums and trade negotiations.

## **Tariffs on U.S. Imports of Washing Machines and Solar Products (Section 201)<sup>42</sup>**

Section 201 of the Trade Act of 1974 grants authority to the President to provide temporary import relief (e.g., through additional tariffs or quotas on imports) in order to facilitate positive adjustment of a U.S. industry to import competition. The President may provide this relief if, as a result of an investigation based on industry petitions or self-initiated by the President, the U.S. International Trade Commission (ITC) makes a recommendation for relief based on a finding that increased U.S. imports of these products are a “substantial cause of serious injury”—or threat thereof—to U.S. manufacturers. Section 201 investigations are unlike other trade remedy tools, such as antidumping (AD) and countervailing duty (CVD) cases that investigate “material injury”

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<sup>38</sup> For more information on Section 232, see CRS Report R45249, *Section 232 Investigations: Overview and Issues for Congress*, coordinated by Rachel F. Fefer and Vivian C. Jones.

<sup>39</sup> Presidential Proclamation 9704 of March 8, 2018, “Adjusting Imports of Aluminum into the United States,” 83 Federal Register 11619, March 15, 2018, and Proclamation 9705 of March 8, 2018, “Adjusting Imports of Steel Into the United States,” 83 Federal Register 11625, March 15, 2018.

<sup>40</sup> Letter to GAO from Sens. Doug Jones, Pat Toomey, Tom Carper, November 26, 2018, <https://www.jones.senate.gov/imo/media/doc/112618%20gao%20letter%20tariffs.pdf>.

<sup>41</sup> USTR Press Release, “United States Challenges Five WTO Members Imposing Illegal Tariffs Against U.S. Products,” July 2018.

<sup>42</sup> Written by Vivian C. Jones. See CRS In Focus IF10786, *Safeguards: Section 201 of the Trade Act of 1974*, by Vivian C. Jones.

(or threat thereof) based on sales of imported products at less than fair value (AD) or that are subsidized by a foreign government or other public entity (CVD).<sup>43</sup> Rather, Section 201 cases investigate import surges of fairly-traded goods.<sup>44</sup>

On January 23, 2018, based on affirmative findings of serious injury by the ITC and recommended actions, President Trump announced that he would impose temporary new tariffs on imports of large residential washing machines<sup>45</sup> and solar photovoltaic (PV) cells and modules,<sup>46</sup> effective February 7, 2018. When initiating the actions on January 23, the President said, “My administration is committed to defending American companies, and they’ve been very badly hurt from harmful import surges that threaten the livelihood of their workers, of jobs, actually, all over this country.” While such actions may benefit some U.S. domestic producers, they could also raise prices for U.S. consumers and domestic industries that use these imports to manufacture downstream products. The Section 201 measures could also increase tensions with various U.S. trading partners. Prior to the ITC affirmative findings, several Members wrote to the ITC commissioners to caution that imposing tariffs could have unintended consequences, including by raising prices and potentially costing jobs at foreign-run facilities in the United States.<sup>47</sup>

### Trading Partner Retaliation and Countermeasures<sup>48</sup>

Increasing U.S. tariffs or imposing other import restrictions potentially opens the United States to complaints it is violating its World Trade Organization (WTO) and free trade agreement (FTA) commitments. In response to the recent U.S. tariff actions, several U.S. trading partners, including Canada, China, Mexico, and the European Union (EU), have initiated dispute settlement proceedings, which are now at various stages in the WTO dispute settlement process.<sup>49</sup> Several countries have also imposed retaliatory tariffs and the United States has similarly responded by initiating additional disputes at the WTO, arguing that the retaliatory measures do not adhere to WTO commitments. Some analysts fear this escalating series of unilateral tariff actions, retaliations, and resulting WTO disputes may threaten the stability of the multilateral trading system, given the political sensitivity of a potential WTO panel ruling on issues related to national security (Section 232) and the possibility of countries potentially disregarding WTO rulings not in their favor.<sup>50</sup>

<sup>43</sup> For more information on antidumping and countervailing duties, see CRS In Focus IF10018, *Trade Remedies: Antidumping and Countervailing Duties*, by Vivian C. Jones.

<sup>44</sup> For more information on Section 201, see CRS In Focus IF10786, *Safeguards: Section 201 of the Trade Act of 1974*, by Vivian C. Jones.

<sup>45</sup> Proclamation 9694 of January 23, 2018, “To Facilitate Positive Adjustment to Competition from Imports of Large Residential Washers,” 83 *Federal Register* 3553, January 25, 2018.

<sup>46</sup> Proclamation 9693 of January 23, 2018, “To Facilitate Positive Adjustment to Competition from Imports of Certain Crystalline Silicon Photovoltaic Cells (Whether or Not Partially or Fully Assembled Into Other Products) and for Other Purposes,” 83 *Federal Register* 3551, January 25, 2018.

<sup>47</sup> Ana Swanson, “Trump to Decide on Tariffs for Imported Washing Machines,” *The New York Times*, November 22, 2017, p. B2, Late Edition—Final.

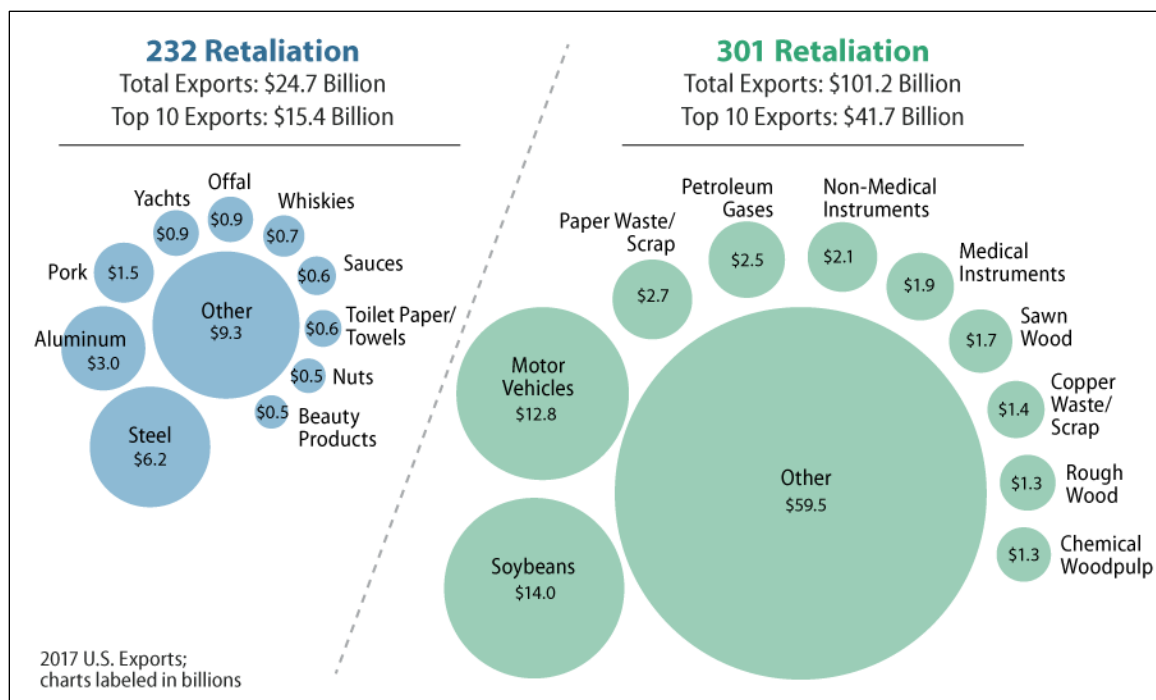
<sup>48</sup> Written by Brock R. Williams, Specialist in International Trade and Finance. See, *Escalating Tariffs: Potential Impacts*, coordinated by Brock R. Williams.

<sup>49</sup> For a listing of ongoing disputes, see Table 3 in CRS Report R45417, *World Trade Organization: Overview and Future Direction*, coordinated by Cathleen D. Cimino-Isaacs.

<sup>50</sup> Adam Behsudi, “Trump Threatens to Blow Up Global Trading Order with Tariffs,” *Politico*, March 9, 2018.

Economically, retaliation amplifies the potential negative effects of the U.S. tariff measures. It broadens the scope of U.S. industries potentially harmed by making targeted U.S. exports less competitive in foreign markets. To date, six trading partners have imposed retaliatory tariffs in response to Section 232 actions affecting approximately \$25 billion of U.S. annual exports, and China has imposed retaliatory tariffs in response to Section 301 actions affecting approximately \$101 billion of U.S. annual exports (**Figure 5**). The products affected cover a range of industries, but the largest export categories include soybeans, motor vehicles, steel, and aluminum.<sup>51</sup> Lost market access resulting from the retaliatory tariffs may compound concerns that U.S. exporters increasingly face higher tariffs than some competitors in foreign markets, as other countries proceed with trade liberalization agreements, such as the EU-Japan FTA, which do not include the United States.

**Figure 5. U.S. Exports Facing Retaliatory Tariffs**



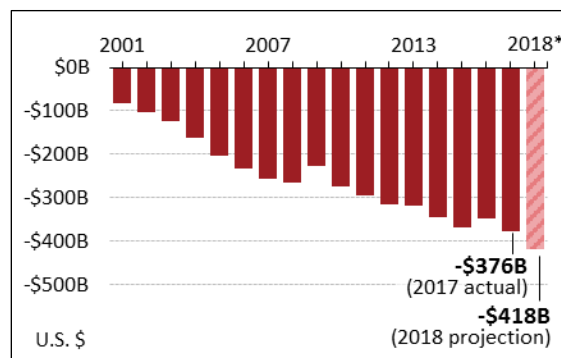
**Source:** CRS calculations based on U.S. trading partner import data from Global Trade Atlas.

**Notes:** U.S. exports approximated by using 2017 trading partner import data. Retaliatory tariffs took effect at various times in 2018. Product groupings based on Harmonized Schedule (HS) 2- and 4-digit categories.

<sup>51</sup> China announced the removal of retaliatory tariffs on motor vehicles for a period of 90 days beginning January 1, 2019 as part of bilateral efforts to resolve the tariff conflict. "China to Halt Added Tariffs on U.S.-Made Cars in Easing of Trade Tensions," *Reuters*, December 14, 2018.

## U.S.-China Trade and Key Issues<sup>52</sup>

**Figure 6. U.S.-China Merchandise Trade Balance: 2001-2018**



**Source:** Figure created by CRS with data from the U.S. International Trade Commission's USITC Dataweb.

**Note:** Data for 2018 are projected based on actual data for January-September 2018.

Since China embarked upon economic and trade liberalization in 1979, U.S.-Chinese economic ties have grown extensively (see text box). Total bilateral trade rose from about \$2 billion in 1979 to \$636 billion in 2017. China was the United States' largest trading partner, largest source of imports (\$506 billion), and third largest merchandise export market (\$130 billion).<sup>53</sup> From 2008 to 2017, U.S. merchandise exports to China grew faster (at 82.4%) than those to any other major U.S. trading partner. According to the U.S. Department of Commerce's Bureau of Economic Analysis (BEA), sales by U.S.-invested firms in China in 2016 totaled \$464 billion.<sup>54</sup> The U.S. merchandise trade deficit with China was \$376 billion in 2017, by far the largest U.S. bilateral trade imbalance; projections estimate it may have reached \$418 billion in 2018 (**Figure 6**). Reducing the U.S. trade deficit with China has been a major objective of the Trump Administration and many in Congress.

<sup>52</sup> Written by Wayne M. Morrison, Specialist in Asian Trade and Finance. See CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison; CRS Report RL33534, *China's Economic Rise: History, Trends, Challenges, and Implications for the United States*, by Wayne M. Morrison; CRS In Focus IF10030, *U.S.-China Trade Issues*, by Wayne M. Morrison; and see CRS In Focus IF10964, *The Made in China 2025 Initiative: Economic Implications for the United States*, by Wayne M. Morrison.

<sup>53</sup> U.S. International Trade Commission, USITC Dataweb.

<sup>54</sup> CrowdStrike News Release, October 9, 2018. <https://www.crowdstrike.com/resources/news/crowdstrike-report-reveals-cyber-intrusion-trends-from-elite-team-of-threat-hunters/>.

### China's Economic Rise: Fast Facts

- **Economy:** According to the International Monetary Fund (IMF), China's gross domestic product (GDP) on a purchasing power parity (PPP) basis overtook the U.S. economy in 2014. China's PPP GDP in 2017 was estimated \$23.2 trillion (19.1% higher than the U.S. level).
- **Trade:** China surpassed the United States as the world's largest merchandise trading economy (exports plus imports) in 2012. China's total trade in 2017 was \$4.1 trillion (compared to U.S. total trade of \$3.9 trillion).
- **FDI:** According to the United Nations Conference on Trade and Development (UNCTAD), in 2017, China was the second largest destination of global FDI flows (\$136 billion, compared to \$275 billion for the United States), and the third largest source of global FDI outflows (\$125 billion, compared with \$342 billion for the United States).
- **Manufacturer:** According to UNCTAD, China overtook the United States in 2010 as the world's largest manufacturer on a gross value added basis, and in 2016, China's level (at \$3.1 trillion) was 41% higher than the U.S. level.
- **Foreign exchange reserves:** China's reserves are the world's largest at \$3.2 trillion as of November 2018, according to China's State Administration of Foreign Exchange.
- **Foreign holder of U.S. Treasury securities:** The U.S. Department of the Treasury reports that, as of September 2018, China was the largest foreign holder of U.S. Treasury securities, at \$1.2 trillion. These large-scale holdings help the U.S. government finance its budget deficits, helping to keep U.S. real interest rates low.

### Industrial Policies and Made in China 2025<sup>55</sup>

From the U.S. perspective, tensions over various economic and trade issues stem largely from China's incomplete transition to an open-market economy. While China has significantly liberalized its economic and trade regimes over the past three decades—especially since joining the World Trade Organization (WTO) in 2001—it continues to maintain or has recently imposed a number of policies to support and protect domestic firms, especially state-owned enterprises (SOEs). Major Chinese government practices of concern to U.S. stakeholders include subsidies, tax breaks, and low-cost loans given to Chinese firms, foreign trade and investment barriers, discriminatory intellectual property and technology policies, and the lack of the rule of law. An American Chamber of Commerce in China business climate survey in 2018 found that 75% said that foreign businesses in China were “less welcomed” there than before, compared to 44% who felt that way in 2014.<sup>56</sup> Several recently issued economic plans, such as the “Made in China 2025” (MIC 2025) initiative, which seeks to make China a global leader in advanced manufacturing in 10 designated industries, appear to indicate a sharply expanded government role in the economy.<sup>57</sup> U.S. business representatives have raised concerns over the potentially distortionary and discriminatory aspects of the MIC 2025 plan, and the Trump Administration's Section 301 actions against China appear to be largely aimed at curbing the initiative (see section on Tariffs on U.S. Imports from China). More recently, Presidents Trump and Xi agreed to negotiations to address issues of concern. The 116<sup>th</sup> Congress may monitor ongoing 301 actions and any potential bilateral agreement to resolve U.S. trade concerns.

<sup>55</sup> Written by Wayne M. Morrison, Specialist in Asian Trade and Finance.

<sup>56</sup> AmCham China, *China Business Climate Survey Report*, January 2018, p. 30.

<sup>57</sup> For more detail, see CRS In Focus IF10964, *The Made in China 2025 Initiative: Economic Implications for the United States*, by Wayne M. Morrison.

## China's Policies on Technology, Innovation, and Intellectual Property<sup>58</sup>

U.S. firms cite the lack of effective protection of intellectual property rights (IPR) as one of their biggest impediments in conducting business in China. A study by the Commission on the Theft of American Intellectual Property estimated that global IPR theft costs the U.S. economy \$300 billion, of which China accounted for between 50% (\$150 billion) and 80% (\$240 billion) of those losses.<sup>59</sup> In May 2014, the U.S. Department of Justice indicted five members of the Chinese People's Liberation Army for government-sponsored cyber-espionage against U.S. companies and theft of proprietary information to aid state-owned enterprises. During Chinese President Xi Jinping's state visit to the United States in September 2015, the two sides reached an agreement on cyber security, pledging that neither country's government would conduct or knowingly support cyber-enabled theft of intellectual property for commercial purposes and to establish a joint dialogue on cybercrime and related issues (which has continued under the Trump Administration).<sup>60</sup> However, in October 2018, CrowdStrike, a U.S. cybersecurity technology company, identified China as "the most prolific nation-state threat actor during the first half of 2018."<sup>61</sup> It found that Chinese entities had made targeted intrusion attempts against "multiple sectors of the economy, including biotech, defense, mining, pharmaceutical, professional services, transportation, and more."<sup>62</sup>

In November 2018, FBI Director Christopher Wray stated: "No country presents a broader, more severe threat to our ideas, our innovation, and our economic security than China." Then U.S. Attorney General Jeff Sessions proclaimed that "Chinese economic espionage against the United States has been increasing—and it has been increasing rapidly."<sup>63</sup> On December 1, 2018, U.S. Assistant Attorney General John C. Demers stated at a Senate hearing that from 2011 to 2018, China was linked to more than 90% of the Department of Justice's cases involving economic espionage and two-thirds of its trade secrets cases. The 116<sup>th</sup> Congress may consider how to address the threats outlined by senior government officials, including through possible legislation.

## Belt and Road Initiative (BRI)<sup>64</sup>

China conceived its Belt and Road Initiative (BRI) in 2013 to promote greater economic connectivity and integration across several regions, through the development of "economic corridors" and revitalized land and sea routes for trade and investment.<sup>65</sup> While infrastructure investment is a core component, objectives of policy coordination, trade facilitation, financial integration, and people-to-people ties also drive the initiative. To date, China has released little official aggregate information on BRI, raising questions for the United States and others about its scope. According to Chinese media, China has signed agreements on BRI cooperation with more

<sup>58</sup> Written by Wayne M. Morrison, Specialist in Asian Trade and Finance.

<sup>59</sup> The Commission on the Theft of American Intellectual Property, *The Report of the Commission on the Theft of Intellectual Property*, May 2013.

<sup>60</sup> The White House, *Fact Sheet: President Xi Jinping's State Visit to the United States*, September 25, 2015, available at <https://obamawhitehouse.archives.gov/the-press-office/2015/09/25/fact-sheet-president-xi-jinpings-state-visit-united-states>.

<sup>61</sup> CrowdStrike, "Observations From the Front Lines of Threat Hunting," October 2018.

<sup>62</sup> Ibid.

<sup>63</sup> U.S. Department of Justice, *News*, November 1, 2018, available at <https://www.justice.gov/opa/pr/prc-state-owned-company-taiwan-company-and-three-individuals-charged-economic-espionage>,

<sup>64</sup> Written by Cathleen D. Cimino-Isaacs, Analyst in International Trade and Finance.

<sup>65</sup> "Full text of President Xi's speech at opening of Belt and Road Forum," *Xinhua*, May 14, 2017.

than 100 countries and international institutions, and collectively, projects could entail capital requirements ranging \$1 trillion to \$4 trillion.<sup>66</sup> Based on emerging trends, projects appear to largely involve Chinese SOEs, materials, and financing. If BRI achieves Chinese objectives to “complement the development strategies of countries involved” and build a “new model of win-win cooperation” it could help fill major deficits in infrastructure investment in Asia and other regions and reshape trade patterns.

Some observers, including U.S. officials and Members of Congress, have growing concerns about the initiative’s motives, perceived lack of transparency in projects, and potential debt sustainability problems for countries receiving Chinese loans (such as Sri Lanka and Pakistan), as well as the use of economic leverage to achieve geopolitical and strategic goals.<sup>67</sup> The United States has commercial interests at stake, and more broadly, economic interests in shaping the rules governing global and regional trade and finance; BRI could potentially reshape these systems to reflect Chinese interests. In response, the Trump Administration has called for modernizing U.S. development finance tools and cooperating with allies on “high-quality infrastructure.”<sup>68</sup> Its “Free and Open Indo-Pacific” strategy involves \$113 million in new U.S. initiatives and investments in the region.<sup>69</sup>

China’s growing economic influence was cited as a motivation for Congress to pass the Better Utilization of Investments Leading to Development (BUILD) Act (P.L. 115-254), signed into law in October 2018.<sup>70</sup> The 116<sup>th</sup> Congress may hold further hearings on Chinese economic practices and BRI, and it may consider new tools to counter Chinese influence and better support U.S. firms involved in economic activities abroad. As part of its oversight and approval of funding for U.S. participation in multilateral development banks and international financial institutions, Congress may also exercise oversight of institutions involved in BRI and implementation of the BUILD Act, as well as consider possible multilateral cooperation on debt transparency issues.

## U.S. Bilateral and Regional Trade Agreements and Negotiations<sup>71</sup>

In addition to multilateral efforts through the World Trade Organization (WTO), the United States has worked to reduce and eliminate barriers to trade and create nondiscriminatory rules and principles to govern trade through bilateral and regional trade agreements.<sup>72</sup> Over the past two decades, these agreements, referred to as free trade agreements (FTAs) in the U.S. context, have

<sup>66</sup> “China sees trade, investment growth with B&R countries,” *Xinhua*, August 28, 2018; and “Cost of Funding ‘Belt and Road Initiative’ is daunting task,” *South China Morning Post*, September 27, 2017.

<sup>67</sup> For example, see John Hurley et al., *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, Center for Global Development, March 2018.

<sup>68</sup> See the Administration’s *National Security Strategy of the United States of America*, December 2017.

<sup>69</sup> Secretary of State Michael R. Pompeo, Remarks on “America’s Indo-Pacific Economic Vision,” U.S. Chamber of Commerce, July 30, 2018; also see, The Trump Administration’s “Free and Open Indo-Pacific”: Issues for Congress, coordinated by Bruce Vaughn.

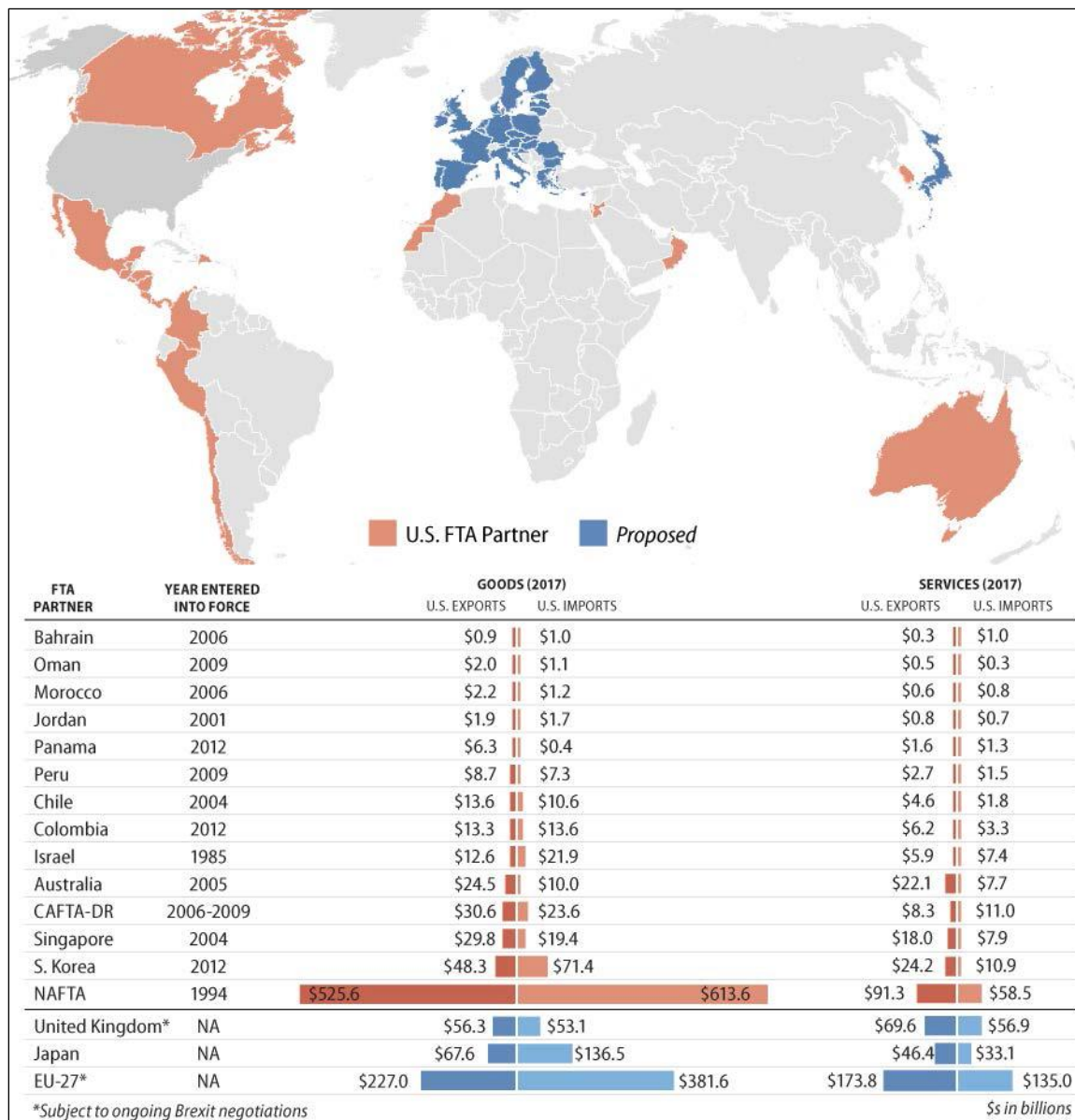
<sup>70</sup> The BUILD Act establishes a new agency—the U.S. International Development Finance Corporation (IDFC)—by consolidating and expanding existing U.S. government development finance functions, which are conducted primarily by the Overseas Private Investment Corporation (OPIC) and some components of the U.S. Agency for International Development (USAID). A key policy rationale for the BUILD Act was to respond to China’s BRI and growing economic influence in developing countries. In this regard, the IDFC aims to advance U.S. influence in developing countries by incentivizing private investment as an alternative to a state-directed investment model. See CRS Report R45461, *BUILD Act: Frequently Asked Questions About the New U.S. International Development Finance Corporation*, by Shayerah Ilias Akhtar and Marian L. Lawson.

<sup>71</sup> Written by Brock R. Williams, Specialist in International Trade and Finance.

<sup>72</sup> For more information, see CRS Report R45198, *Bilateral and Regional Trade Agreements: Issues for Congress*, by Brock R. Williams.

proliferated globally in part due to difficulty in reaching consensus on new agreements at the WTO. In total, the United States has concluded 14 FTAs with 20 countries since 1985, when the first bilateral FTA was concluded with Israel (Figure 7).

**Figure 7. U.S. Trade with Current and Proposed FTA Partners**



**Source:** CRS with data from the U.S. Department of Commerce's Census Bureau and Bureau of Economic Analysis.

**Note:** EU-27 excludes trade with United Kingdom.

The Trump Administration has taken a number of actions with regard to FTAs, and the issue may be a focus of the 116<sup>th</sup> Congress. In January 2017, the President withdrew the United States from the 12-member Trans-Pacific Partnership (TPP), which had been signed but not ratified during the Obama Administration. The Trump Administration has also made changes to existing U.S. FTAs. Most significantly, the Administration renegotiated the North American Free Trade Agreement (NAFTA), the largest U.S. FTA. The modified agreement—renamed the United States-Mexico-

Canada Agreement (USMCA)—requires congressional approval and implementing legislation in order to enter into force, suggesting a possible vote in the 116<sup>th</sup> Congress.<sup>73</sup> The President also negotiated changes to the U.S.-South Korea (KORUS) FTA, but the relatively minor adjustments were made by proclamation at the end of 2018 and require no further action by Congress. Looking forward, the Administration has notified Congress under Trade Promotion Authority (TPA) of its intent to negotiate trade agreements with the European Union (EU), Japan, and the United Kingdom (UK), which could begin in early 2019.<sup>74</sup> Congress is expected to weigh in on the scope and objectives for these new agreements throughout the negotiating process, especially through the TPA requirement for the Executive Branch to conduct ongoing consultations before, during, and after the completion of the negotiations.

### U.S.-Mexico-Canada Agreement (USMCA)<sup>75</sup>

On November 30, 2018, President Trump and the leaders of Canada and Mexico signed the United States-Mexico-Canada Agreement (USMCA), a proposed trilateral free trade agreement (FTA) that, if approved by Congress and ratified by the governments of Canada and Mexico, would revise and modernize the North American Free Trade Agreement (NAFTA). Pursuant to trade promotion authority (TPA), the Administration notified Congress of its intention to sign the agreement on August 31, 2018, in part to allow for the signing of the agreement prior to Mexico's president-elect Andres Manuel Lopez Obrador taking office on December 1, 2018. Members may debate and potentially consider legislation to implement the agreement in the 116<sup>th</sup> Congress. Issues for potential examination include whether the USMCA meets TPA's negotiating objectives, whether provisions on labor and environment would have stronger enforcement, and the economic impact of the agreement. Congress may also consider the economic and political ramifications if President Trump gives a six-month notification of an intention to withdraw from NAFTA.

#### NAFTA and USMCA Fast Facts

- **Milestones**
  - DEC 1992: NAFTA signed by Pres. George H. W. Bush
  - AUG 1993: NAFTA side agreements signed
  - NOV 1993: NAFTA Implementation Act approved by Congress
  - DEC 1993: Signed into law by Pres. Clinton
  - JAN 1994: NAFTA entered into force
- MAY 2017: Pres. Trump sends 90-day notification to Congress of intent to renegotiate NAFTA
- AUG 2018: Pres. Trump notifies Congress of intent to sign agreement
- NOV 2018: USMCA signed by Pres. Trump and leaders of Canada and Mexico
- **Proposed USMCA:** Would revise and modernize NAFTA if approved by Congress and enters into force. Retains most of NAFTA's chapters with updated provisions on rules of origin for motor vehicle and agricultural products, IPR protection, digital trade, services, labor and the environment, state-owned enterprises, corruption, currency misalignment, and periodic review of the agreement.

Many trade policy experts and economists give credit to FTAs such as NAFTA for expanding trade and economic linkages among countries, creating more efficient production processes, increasing the availability of lower-priced consumer goods, and improving living standards and working conditions. Other proponents contend that NAFTA has political dimensions that create positive ties within North America and improve democratic governance. At the same time, some

<sup>73</sup> USMCA also will have to be ratified by the legislatures of Canada and Mexico before it takes effect.

<sup>74</sup> The United States and the UK will not be able to start formal trade negotiations until the UK leaves the EU.

<sup>75</sup> Written by M. Angeles Villarreal, Specialist in International Trade and Finance. See, Proposed U.S.-Mexico-Canada (USMCA) Trade Agreement, by Ian F. Fergusson and M. Angeles Villarreal, CRS Report R44981, *NAFTA Renegotiation and Modernization*, by M. Angeles Villarreal and Ian F. Fergusson; and CRS In Focus IF10047, *North American Free Trade Agreement (NAFTA)*, by M. Angeles Villarreal.

policymakers, labor groups, and consumer advocacy groups argue that NAFTA has had a negative effect on the U.S. economy. They often refer to labor provisions as being weak and maintain that the proposed USMCA should have stronger, more enforceable labor provisions to address issues such as outsourcing, lower wages, and job dislocation.

The proposed USMCA, comprised of 34 chapters and 12 side letters, retains most of NAFTA's chapters, including the elimination of tariff and nontariff trade barriers, while making notable changes to rules of origin (ROO) for motor vehicle and agriculture products and modernizing provisions on intellectual property rights (IPR), digital trade, and services trade. The agreement also allows some greater access to the Canadian dairy market to U.S. dairy producers and adds new obligations on currency misalignment, a new chapter on state-owned enterprises, and a new chapter on anti-corruption. Other provisions new to U.S. FTAs include a sunset clause provision, which would require a joint review and agreement on renewal issues after six years, revised provisions on government procurement and investment, and a provision that allows a party to withdraw from the agreement if another party enters into an FTA with a country it deems to be a nonmarket economy (e.g., China).

The Trump Administration's proposals on ROO in motor vehicle products were one of the more controversial issues in the USMCA negotiations. Under NAFTA, the ROO requirement for autos, light trucks, engines, and transmissions is 62.5%; for all other vehicles and automotive parts it is 60%. USMCA would raise these requirements to 75% of a motor vehicle's content and to 70% of its steel and aluminum content. It would also add a wage requirement, for the first time in any FTA, stating that 40%-45% of auto content must be made by workers earning at least \$16 per hour.

Supporters of the proposed USMCA contend that the agreement would modernize NAFTA by including updated provisions in areas such as digital trade and financial services. Some analysts believe that the updated auto ROO requirements contained in the USMCA could raise compliance and production costs and lead to higher prices, which could possibly negatively affect U.S. vehicle sales. Overall, the full economic effects of the proposed USMCA would not be expected to be significant because nearly all U.S. trade with Canada and Mexico is now conducted duty and barrier free. Many economists and other observers believe that it is not expected to have a measurable effect on United States-Mexico trade and investment, jobs, wages, or overall economic growth, and that it would probably not have a measurable effect on the U.S. trade deficit with Mexico.<sup>76</sup>

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<sup>76</sup> C. Fred Bergsten, *Trade Balances and the NAFTA Renegotiation*, Peterson Institute for International Economics, Policy Brief, June 2017.

## U.S.-South Korea (KORUS) FTA Modifications<sup>77</sup>

**Figure 8. U.S.-South Korea Trade**



**Source:** Figure created by CRS with data from the U.S. Department of Commerce's Bureau of Economic Analysis.

The U.S.-South Korea (KORUS) free trade agreement (FTA), the second-largest U.S. FTA by trade flows, has been a centerpiece of U.S.-South Korea economic relations since its entry into force in March 2012. Formal negotiations to modify the pact began in January 2018, following months of public criticism of the agreement by President Trump, including threats of potential U.S. withdrawal. In September, the two countries signed a modified agreement. The relevant U.S. tariff changes became effective January 1, 2019, through Presidential proclamation.<sup>78</sup> A major underlying factor in the renegotiation was President Trump's concern over the growth in the bilateral trade deficit since KORUS took effect (**Figure 8**). Most economists, however, argue that other factors, including a slowdown in South Korea's economic growth during the period, were the key drivers of the deficit. In 2017, the U.S. trade deficit with South Korea shrank by more than \$7 billion, in part due to increased U.S. energy (crude oil and natural gas) and services exports.

The KORUS FTA is the most recent and arguably most extensive U.S. FTA in effect. The changes made through the modifications were relatively minor and focused mostly on U.S. tariff adjustments and South Korean implementation issues.<sup>79</sup> Specifically, the modifications, among other things, extend the 25% U.S. light truck tariff for twenty years to 2041, double the number of U.S. vehicle exports to South Korea that can be imported with U.S. safety standards (25,000 to 50,000 per manufacturer per year), and confirm South Korea's adherence to KORUS commitments on origin verifications, and its intent to amend a domestic pharmaceutical pricing policy to ensure it is consistent with KORUS commitments. Although South Korea's National Assembly ratified the modifications, the government has expressed concern over potential U.S. Section 232 tariffs on auto and auto parts. Unlike the United States-Mexico-Canada Agreement (USMCA), the KORUS FTA modifications do not explicitly exempt any South Korean autos from future Section 232 actions.

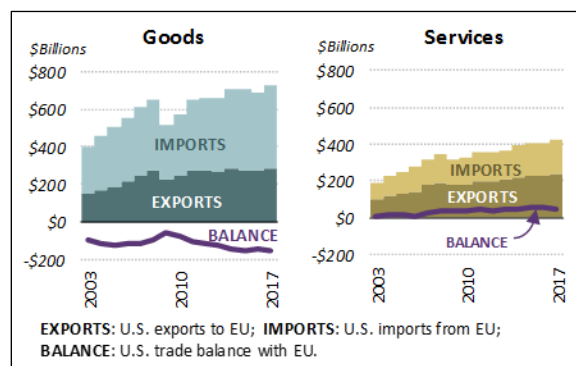
<sup>77</sup> Written by Brock Williams, Specialist in International Trade and Finance. See CRS In Focus IF10733, *U.S.-South Korea (KORUS) FTA*, coordinated by Brock R. Williams.

<sup>78</sup> Executive Office of the President, "To Take Certain Actions under the African Growth and Opportunity Act and for Other Purposes," 84 *Federal Register* 35-44, January 7, 2019.

<sup>79</sup> The KORUS FTA modifications are available at <https://ustr.gov/sites/default/files/files/Press/Releases/KORUS%20Texts%20Outcomes.pdf>.

## U.S.-European Union Trade Negotiations<sup>80</sup>

**Figure 9. U.S.-EU Trade**



**Source:** Figure created by CRS with data from the U.S. Department of Commerce's Bureau of Economic Analysis.

On October 16, 2018, the Trump Administration notified Congress, under Trade Promotion Authority (TPA), of its intent to enter trade agreement negotiations with the European Union (EU), its largest overall trade and investment partner. This followed a U.S.-EU announcement in July 2018 on plans to work to eliminate transatlantic tariffs, nontariff barriers, and subsidies on “non-auto industrial goods,” as well as to boost trade specifically in services, chemicals, pharmaceuticals, medical products, and U.S. soybeans.<sup>81</sup> Although the European Commission does not have a negotiating mandate from EU member states, U.S.-EU preparatory talks have been ongoing. The proposed negotiations represent a potential de-escalation of the conflict between the two sides over recent new tariff measures (see Tariff Actions by the Trump Administration). Each side agreed not to impose further tariffs on each other while negotiations are active, and to examine current U.S. steel and aluminum tariffs.

At the same time, the proposed negotiations are likely to be complex. No agreement exists on their scope. The EU, so far, has rejected the U.S. assertion on including all agriculture in the negotiations. It is an open question if the scope will broaden to include other areas designated under TPA. Depending on which issues are addressed, the challenges that impeded the previous U.S.-EU trade negotiations could resurface.<sup>82</sup> EU FTAs negotiated in recent years emphasize expanded protections for geographical indications, replace investor-state dispute settlement (ISDS) with an investment court system, and lack explicit commitments to remove trade restrictions on data flows; these approaches raised concerns for some Members of Congress in the past. The United Kingdom's expected withdrawal from the EU also could affect the negotiations, as it would remove a traditionally leading voice on trade liberalization from the EU. How the United States approaches some trade issues might evolve in the wake of the proposed United States-Mexico-Canada Agreement (USMCA). Congress has a direct interest in monitoring and shaping trade discussions on these issues. Implementing legislation for any final U.S.-EU trade agreement would be subject to congressional consideration. As negotiations proceed, Congress

<sup>80</sup> Written by Shayerah Ilias Akhtar. See CRS In Focus IF10930, *U.S.-EU Trade and Investment Ties: Magnitude and Scope*, by Shayerah Ilias Akhtar, and CRS In Focus IF10931, *U.S.-EU Trade and Economic Issues*, by Shayerah Ilias Akhtar.

<sup>81</sup> White House, “President Donald J. Trump Launches a New Reciprocal Trade Relationship with the European Union,” fact sheet, July 27, 2018.

<sup>82</sup> CRS In Focus IF10120, *Transatlantic Trade and Investment Partnership (T-TIP)*, by Shayerah Ilias Akhtar and Vivian C. Jones.

may debate and hold hearings on such issues as the potential impact of greater transatlantic trade liberalization on the U.S. economy and particular sectors, and the extent to which any U.S.-EU commitments could help develop globally relevant rules on trade.

## U.S.-Japan Trade Negotiations<sup>83</sup>

**Figure 10. U.S. Top Trading Partners in 2017**



**Source:** Figure created by CRS with data from the U.S. Department of Commerce's Bureau of Economic Analysis.

In September 2018, President Trump and Japanese Prime Minister Abe announced plans to launch formal bilateral trade negotiations.<sup>84</sup> Under Trade Promotion Authority (TPA) procedures, on October 16, the Administration officially notified Congress of its intent to enter into the negotiations—which could begin after 90 days—and began consultations with Congress over the scope of such negotiations. As a top U.S. trade and investment partner, Japan is a longstanding U.S. priority for trade negotiations, in particular following U.S. withdrawal from the proposed Trans-Pacific Partnership (TPP) in 2017 (**Figure 10**). Japan's recent free trade agreements (FTAs) with major markets in the Asia-Pacific and Europe could set new rules and lower tariffs for other countries trading with Japan, disadvantaging U.S. exporters and further incentivizing U.S. interest in new talks. Japan had preferred a regional approach to U.S. trade negotiations, and urged the United States to reconsider its TPP withdrawal. Some suggest Japan's willingness to enter bilateral talks relates to potential U.S. Section 232 tariffs on Japanese autos and auto parts—Japan's top export to the United States and a major source of the U.S. trade deficit with Japan.<sup>85</sup>

The initial joint announcement stated that the negotiations will focus on goods and services—specifically areas that “can produce early achievements”—and then turn to investment and other issues. Negotiations of commitments on agriculture and autos may be among the most contentious, and both sides have expressed priorities for the new talks. Japan plans to limit new agriculture market access to its offers in existing trade agreements, including TPP, while the United States seeks market access outcomes that will increase U.S. production and employment in the auto industry. An agreement limited in coverage or presented to Congress in stages would represent a shift in approach from recent U.S. FTAs, which typically contain more comprehensive provisions. The Administration provided more certainty in the scope of the new U.S.-Japan talks

<sup>83</sup> Written by Cathleen Cimino-Isaacs, Analyst in International Trade and Finance and Brock Williams, Specialist in International Trade and Finance. See CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*, coordinated by Emma Chanlett-Avery.

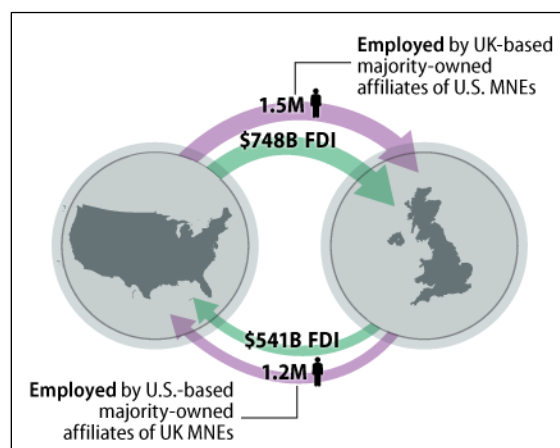
<sup>84</sup> USTR, “Joint Statement of Japan and the United States,” September 26, 2018.

<sup>85</sup> CRS In Focus IF10971, *Section 232 Auto Investigation*, coordinated by Rachel F. Fefer.

in releasing its specific negotiating objectives in December 2018, as required by TPA 30 days before talks can commence. It suggests that a broad range of issues may be covered, including trade in goods, services, agriculture, investment, intellectual property, state-owned enterprises, and digital trade. The Office of the U.S. Trade Representative (USTR) specified that it may pursue negotiations with Japan in stages, in consultation with Congress, but that the aim is to “address both tariff and nontariff barriers and to achieve fairer, more balanced trade in a manner consistent with the objectives that Congress has set out” in TPA.<sup>86</sup>

## U.S.-United Kingdom Trade Negotiations<sup>87</sup>

**Figure 11. U.S.-UK Direct Investment**



**Source:** Figure created by CRS with data from U.S. Department of Commerce’s Bureau of Economic Analysis.

**Notes:** FDI data for 2017, on historical cost basis; employment data for 2016.

In light of “Brexit”—the expected withdrawal of the United Kingdom (UK) from the European Union (EU)—some Members of Congress and the Trump Administration called for launching U.S.-UK free trade agreement (FTA) negotiations. The UK is a major U.S. trade and economic partner, and foreign direct investment (FDI) and affiliate activity are key aspects of bilateral ties (**Figure 11**). In January 2017, President Trump and Prime Minister May discussed how the two sides could “lay the groundwork” for a future U.S.-UK FTA.<sup>88</sup> The two sides subsequently established a bilateral working group that has met regularly to explore ways to strengthen trade and investment ties, including through a potential future FTA.<sup>89</sup> On October 16, 2018, the Administration formally notified Congress, under Trade Promotion Authority (TPA), of its intent to enter into the negotiations.<sup>90</sup> The 116<sup>th</sup> Congress may hold ongoing consultations with the Trump Administration over the scope of the negotiations, and to engage in oversight as the negotiations progress.

<sup>86</sup> USTR, “United States-Japan Trade Agreement (USJTA) Negotiations: Summary of Specific Negotiating Objectives,” December 2018.

<sup>87</sup> Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance. See CRS Report R44817, *U.S.-UK Free Trade Agreement: Prospects and Issues for Congress*, by Shayerah Ilias Akhtar; and CRS Report RL33105, *The United Kingdom: Background, Brexit, and Relations with the United States*, by Derek E. Mix.

<sup>88</sup> The White House, “President Trump and Prime Minister May’s Opening Remarks,” press release, January 27, 2017.

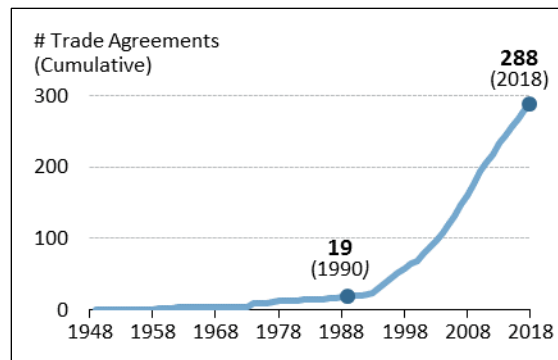
<sup>89</sup> USTR, “Fifth Meeting of the U.S.-UK Trade and Investment Working Group,” press release, November 9, 2018.

<sup>90</sup> The United States and the UK will not be able to start formal trade negotiations until the UK leaves the EU.

FTA prospects depend on the terms of the UK's withdrawal from the EU and the future UK-EU trade relationship, including whether the UK will have an independent trade policy. Tremendous uncertainty surrounds the UK-EU Brexit negotiations. Under a draft agreement and political declaration, a transition period could extend through at least 2020, during which time the UK may be able to negotiate, but not enter into, trade agreements with other countries.<sup>91</sup> Aspirations for the future UK-EU relationship include negotiating a comprehensive UK-EU FTA, along with developing an independent UK trade policy. Yet, the "Irish border" issue presents challenges; a agreement reached by both sides in late 2018—in which the UK would have remained in a customs union with the EU as a "backstop" if they cannot reach an alternative arrangement that avoids a "hard border" (customs check, physical border infrastructure) between Northern Ireland and Ireland—was rejected by the UK Parliament in January 2019. How aligned the UK remains with the EU in such areas as regulations could affect dynamics in the U.S.-UK FTA negotiations. Some experts view a U.S. FTA with the UK as more feasible than one with the EU, given similarities in U.S. and UK trade policy approaches historically and the two countries' "special relationship"; others caution that domestic interests could complicate trade negotiations. Prospects of bilateral FTA negotiations have already generated concern among some stakeholders, particularly in the UK, about implications, such as for food safety regulations. Other key negotiating issues could include financial services, investment, and e-commerce, which are prominent in U.S.-UK trade.

### Proliferation of Non-U.S. Trade Agreements<sup>92</sup>

**Figure 12. Trade Agreements Worldwide**



**Source:** Figure created by CRS with data from the WTO Regional Trade Agreement Database.

**Note:** Includes active agreements notified to the WTO.

Since 1990, the number of free trade and regional agreements in force globally has grown six-fold from fewer than 20 to nearly 300 (**Figure 12**). All 164 members of the World Trade Organization (WTO) are now party to at least one FTA and, as of 2014, each member had on average 11 FTA partners.<sup>93</sup> With only 14 U.S. FTAs in effect, the vast majority of these agreements do not involve the United States. The multilateral trading system, meanwhile, has not produced a broad set of

<sup>91</sup> Draft Agreement on the Withdrawal of the UK for the EU, November (as agreed on November 14, 2018); and Political Declaration Setting Out the Framework for the Future Relationship Between the European Union and the United Kingdom, November 22, 2018.

<sup>92</sup> Written by Brock Williams, Specialist in International Trade and Finance. See CRS Report R45198, *Bilateral and Regional Trade Agreements: Issues for Congress*, by Brock R. Williams.

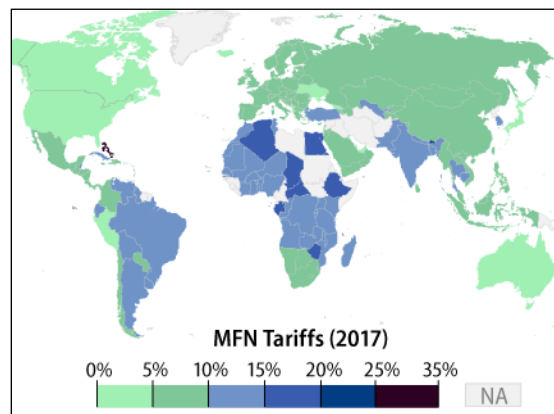
<sup>93</sup> Jo-Ann Crawford, "Market Access Provisions on Trade in Goods in Regional Trade Agreements," in *Regional Trade Agreements and the Multilateral Trading System*, ed. Rohini Acharya (2016), p. 9.

new trade liberalization agreements (excluding more limited scope agreements, such as the Trade Facilitation Agreement) since the Uruguay Round, which also established the WTO in 1995. The proliferation of FTAs, particularly in the absence of a major new multilateral agreement, presents certain challenges for the United States. These agreements are inherently discriminatory given their limited membership (i.e., they provide preferential treatment to some countries and not others). U.S. exporters benefit from the preferential aspects of FTAs when they gain better access to FTA partner markets than their foreign competitors, but may be similarly harmed when third parties negotiate agreements that do not involve the United States.

During the 116<sup>th</sup> Congress, this issue may grow more prominent as agreements among a number of the United States' top trading partners are concluded and take effect. Major recent agreements include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11), involving among others Canada, Mexico, Japan, and Vietnam, which took effect at the end of 2018, and the European Union-Japan FTA which is expected to come into effect in early 2019. Both the United States and Japan exported more than \$10 billion of autos to the European Union (EU) in 2017; the EU-Japan FTA would eventually eliminate the EU's 10% auto tariff, giving Japanese exporters a major competitive advantage in the EU market. As other countries move forward with new FTA negotiations that cover a significant share of world trade, a number of issues arise that may be of interest to Congress, including how these agreements will affect U.S. economic and strategic interests, their impact on U.S. leadership in trade liberalization efforts and establishing new trade rules, and the appropriate U.S. response.

## The World Trade Organization (WTO)<sup>94</sup>

**Figure 13. Average Applied Most-Favored Nation (MFN) Tariffs**



**Source:** Figure created by CRS with data from the WTO.

The 164-member World Trade Organization (WTO), established in 1995, oversees and administers global trade rules and negotiations, and resolves trade disputes. The WTO succeeded the General Agreement on Tariffs and Trade (GATT) of 1947, which was established to advance a more open, rules-based trading system and to further economic stability, growth, and prosperity. The United States was a key architect of the GATT/WTO and the agreements resulting from multilateral trade negotiations. Successive rounds of trade liberalization, culminating in the Uruguay Round (1986-1994), supported the significant expansion of trade through reductions in

<sup>94</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance, and Cathleen Cimino-Isaacs and Rachel Fefer, Analysts in International Trade and Finance. For more background and analysis see CRS Report R45417, *World Trade Organization: Overview and Future Direction*, coordinated by Cathleen D. Cimino-Isaacs.

trade barriers and the establishment of rules and principles, such as nondiscrimination and transparency. Since the establishment of the WTO, members have lowered their average most-favored nation (MFN) applied tariff on a unilateral basis from 25% in 1994 to less than 10% today (**Figure 13**).<sup>95</sup> The WTO's dispute settlement system has processed more than 500 disputes, with the aim of enforcing its rules, managing trade tensions, and ensuring a stable system.

While the WTO is recognized as the foundation of the global trading system, including by Congress,<sup>96</sup> it faces growing challenges. Many observers believe it must adopt reforms to remain a relevant and effective institution, both in terms of its negotiating and dispute settlement functions. Compared to past administrations, the Trump Administration has taken a more skeptical stance toward the WTO and the value of multilateral trade deals. President Trump has also raised the possibility of U.S. withdrawal from the WTO. As debates over the future of the WTO intensify, a number of issues arise that may be of interest to the 116<sup>th</sup> Congress, including how current and future WTO agreements affect the U.S. economy and the value of U.S. membership and leadership in the WTO.

### **Multilateral and Plurilateral Negotiations<sup>97</sup>**

While the landscape of global trade and investment has changed dramatically since the World Trade Organization (WTO)'s founding, WTO rules have not been modernized or expanded since 1995, with some exceptions. The most recent round of multilateral negotiations, the Doha Round, began in 2001, but stalled in 2015, with no clear path forward. The deadlock in negotiations is largely due to entrenched differences in priorities among leading emerging market economies, developing countries, and advanced economies, as well as rigidities in the multilateral negotiating process.

The most recent 11<sup>th</sup> WTO Ministerial Conference in 2017 did not result in major breakthroughs in negotiations. Work to build on current agreements continues, including through plurilateral agreements among subsets of countries. WTO members committed to achieve a multilateral deal on fisheries subsidies by the next ministerial in 2020; the United States has supported these efforts. In other areas, such as agriculture, talks remain stalled. Separate groups of members committed to work programs or plurilateral talks on e-commerce (which the United States joined), investment facilitation, and micro, and small and medium-sized enterprises. The United States viewed the 11<sup>th</sup> Ministerial outcome positively—that it signaled “the impasse at the WTO was broken,” paving the way for like-minded countries to pursue new work in other areas.<sup>98</sup> Some WTO members, including the United States, point to plurilateral or sectoral settings as the way forward for the institution. The Trump Administration has not specified its position on plurilaterals pursued under the Obama Administration, such as on services and environmental goods. More recently, the European Union (EU), Canada, China, and other countries have put forward WTO reform proposals. These and other issues may be of ongoing interest to Congress.

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<sup>95</sup> Caroline Freund, “The United States Wins from Trade Agreements,” Trade & Investment Policy Watch, December 18, 2017, <https://piie.com/blogs/trade-investment-policy-watch/united-states-wins-trade-agreements>.

<sup>96</sup> As per Section 102(b)(13) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (Title I, P.L. 114-26), which reauthorized trade promotion authority (TPA).

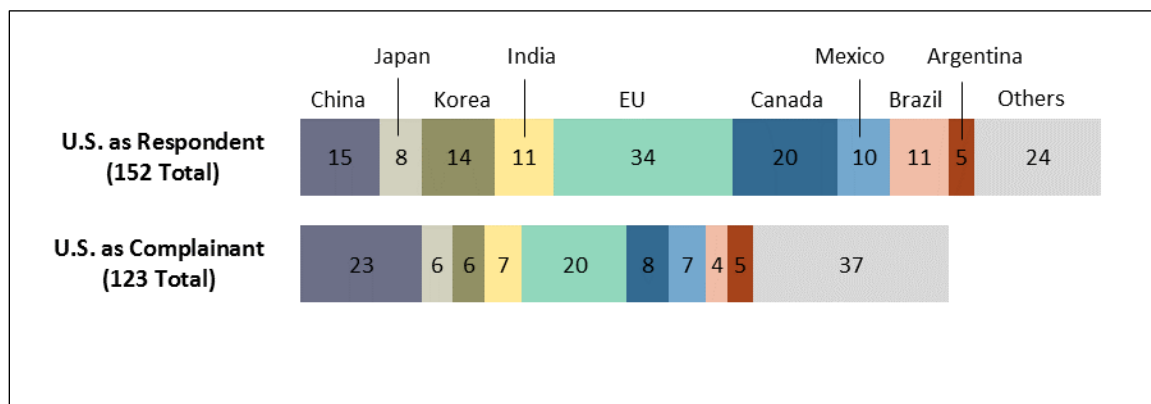
<sup>97</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance, and Cathleen Cimino-Isaacs and Rachel Fefer, Analysts in International Trade and Finance.

<sup>98</sup> USTR, “USTR Robert Lighthizer Statement on the Conclusion of the WTO Ministerial Conference,” press release, December 2017.

## Dispute Settlement<sup>99</sup>

The World Trade Organization (WTO) dispute settlement system is often called the “crown jewel” of the organization by its adherents because it provides a means to enforce commitments and resolve disputes peacefully without recourse to unilateral action. Under its procedures, countries first seek to settle their differences through consultation. If consultations prove unsuccessful, a dispute can be launched. The dispute is presented before a dispute settlement panel, and a decision is adopted by the Dispute Settlement Body. Cases can be appealed to the Appellate Body (AB). If a party is found to violate an agreement, it has time to bring its law into conformity with the decision. If the party refuses to bring itself into compliance, or if the compliance panel deems the steps taken to be insufficient, the aggrieved party can retaliate by withdrawing trade concessions (i.e., reimposing tariffs) to a level equivalent to the economic damage of the infringing measure. The U.S. Trade Representative (USTR) is authorized to launch cases on behalf of the United States, after input from other agencies and stakeholders in the private sector or nongovernmental organizations (NGOs). The United States is an active user of the dispute settlement system. Among WTO members, the United States has been a complainant in the most dispute cases since the system was established in 1995, initiating 123 disputes (**Figure 14**). The two largest targets of complaints initiated by the United States are China and the EU, which, combined, account for more than one-third.

**Figure 14. WTO Disputes Involving the United States**



**Source:** CRS with data from the World Trade Organization.

**Notes:** Does not include cases with U.S. participation as a third party. Dispute count as of January 24, 2019.

Some stakeholders, including the Trump Administration and some Members of Congress, hold a more skeptical view of the WTO’s dispute settlement system and have focused on reforming it. The Administration has withheld the appointment of AB panelists, imperiling the ability of the AB to hear cases past December 2019, when it would lack a quorum. USTR Robert Lighthizer has called for systemic changes in the body, but, thus far, the United States has not made specific proposals. U.S. concerns are known to include whether AB panelists have interpreted agreements too expansively and opine on issues not central to the case at hand, whether proceedings are completed in a timely manner, and whether AB jurists should be able to finish cases after their terms have expired. The European Union (EU) and others have proposed reforms to address U.S. concerns on a number of issues, but these were rejected by the United States. The U.S.

<sup>99</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance, and Cathleen Cimino-Isaacs and Rachel Fefer, Analysts in International Trade and Finance.

Ambassador to the WTO claims that the proposals “instead appear to endorse changing the rules to accommodate and authorize the very approaches that have given rise to Members’ concerns.”<sup>100</sup>

## **Challenges and Future Direction<sup>101</sup>**

The United States has historically served as a leader in the World Trade Organization (WTO) and many U.S. firms rely on WTO rules to open markets for imports and exports, eliminate discriminatory treatment, and defend and advance U.S. economic interests. There are costs and benefits to the United States and other countries to uphold the rules and enforce WTO commitments. As WTO members did not conclude the Doha Round, new questions emerged about the WTO’s future direction. Many observers are concerned that recent U.S. tariff actions and counterretaliation by other countries, as well as escalating trade disputes are straining the system. Arguably, the WTO system is only as strong as the members’ commitment to abide by its rules, and if those rules are not respected by one or more members engaging in tit-for-tat retaliation, the edifice of the system could be weakened. Another question is whether the WTO is equipped to handle effectively the challenges of emerging markets like China that many experts view as not full-fledged market economies.

The Administration has expressed doubt over the value of the WTO and multilateral trade negotiations to the U.S. economy. While some U.S. frustrations with the WTO are not new and are shared by other trading partners, the Administration’s overall approach has spurred new questions regarding future U.S. leadership and participation in the WTO.

Many observers believe the WTO needs to adopt reforms to salvage its role as the foundation of the global trading system. In addition to ongoing WTO efforts to negotiate new trade liberalization and rules in areas like fisheries or e-commerce and digital trade, negotiations in other areas such as services, competition with state owned enterprises, and other issues could help increase the relevance of the WTO as a negotiating body. Partly in response to perceived protectionist actions by the Trump Administration, other countries have begun to assert themselves as leaders and advocates for the global trading system. Led by the European Union (EU) and Canada, some WTO members have begun to explore aspects of institutional reform that could promote the effectiveness of the WTO. The 116<sup>th</sup> Congress may consider whether new U.S. negotiating objectives or oversight hearings are needed to address prospects for WTO reforms and rulemaking.

## **Intellectual Property Rights<sup>102</sup>**

Intellectual property is a creation of the mind that may be embodied in physical and nonphysical (including digital) objects. Intellectual property rights (IPR) are legal, private, enforceable rights that governments grant to inventors and artists that generally provide time-limited monopolies to right holders to use, commercialize, and market their creations and prevent others from doing the

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<sup>100</sup> Deputy USTR Dennis Shea, quoted in “Appellate Body reform proposals fail to address U.S. concerns,” *Inside U.S. Trade*, December 14, 2018.

<sup>101</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance, and Cathleen Cimino-Isaacs and Rachel Fefer, Analysts in International Trade and Finance.

<sup>102</sup> Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance, and Ian F. Fergusson, Specialist in International Trade and Finance. See CRS Report RL34292, *Intellectual Property Rights and International Trade*, by Shayerah Ilias Akhtar and Ian F. Fergusson; CRS In Focus IF10033, *Intellectual Property Rights (IPR) and International Trade*, by Shayerah Ilias Akhtar and Ian F. Fergusson; and CRS In Focus IF10442, *TPP: Intellectual Property Rights (IPR)*, by Shayerah Ilias Akhtar and Ian F. Fergusson.

same without their permission. Examples of IPR include patents, copyrights, trademarks, trade secrets, and geographical indicators.

Debate over IPR includes a number of policy concerns, including the role of intellectual property in the U.S. economy as a source of innovation and comparative advantage; the impact of IPR infringement on U.S. commercial, health, safety, and security interests; and the balance between protecting IPR to stimulate innovation and advancing other public policy goals, such as promoting access to medicines and ensuring the free flow of information. As the global economy changes, protection and enforcement of IPR in the digital environment, including cyber-theft, is of increasing concern. At the same time, lawful limitations to IPR, such as exceptions in copyright law for media, research, and teaching (known as “fair use”), also may have benefits.

IPR is addressed in trade agreements and U.S. law. Since 1988, Congress has included IPR as a principal U.S. trade negotiating objective in trade promotion authority (TPA). In the TPA passed in 2015, Congress directs the Executive Branch to seek IP commitments that exceed the minimum standards of the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). The United States also has other trade policy tools at its disposal under U.S. law to advance IPR goals. The “Special 301” provision of the Trade Act of 1974 allows the U.S. Trade Representative (USTR) to identify and report different levels of U.S. concern about foreign countries’ IPR practices and policies. The U.S. International Trade Commission (ITC) conducts investigations into allegations that U.S. imports infringe U.S. intellectual property under the “Section 337” provision of the Tariff Act of 1930, as amended. Section 337 investigations, depending on their outcome, can lead to orders prohibiting counterfeit and pirated goods from entering U.S. borders.

A central part of the IPR debate in the 116<sup>th</sup> Congress may be the IPR provisions of the proposed United States-Mexico-Canada Trade Agreement (USMCA), which retain the North American Free Trade Agreement’s (NAFTA’s) core protections for IPR and specific enforcement requirements. At the same time, the USMCA also includes updated and new provisions, notably ten years of data protection for biologics; extension of copyright terms to 70 years; prohibitions on circumvention of technological protection measures; criminal and civil penalties for trade secret theft, including by state-owned enterprises and cyber-theft; and copyright safe-harbor provisions for Internet Service Provider (ISP) liability. In addition, Congress may continue to monitor closely negotiations with China to address the IPR issues raised by the Trump Administration’s Section 301 investigation (see sections on Tariff Actions by the Trump Administration and U.S.-China Trade and Key Issues). These include forced technology transfer from U.S. companies, cyber-intrusion and cyber-theft of U.S. trade secrets, discriminatory licensing restrictions on U.S. firms, and efforts to acquire sensitive U.S. technology.

## **Labor and Environment<sup>103</sup>**

Some Members of Congress and others have sought to improve labor and environmental conditions in other countries through the inclusion of more enforceable provisions in U.S. free trade agreements (FTAs). They have been concerned that lax or lower standards in other countries may make U.S. products less competitive (resulting in lost jobs and production to overseas firms), or cause damage to the environment as trade and investment expand. Other policymakers have

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<sup>103</sup> Written by M. Angeles Villarreal, Specialist in International Trade and Finance, and Ian F. Fergusson, Specialist in International Trade and Finance. See CRS In Focus IF10046, *Worker Rights Provisions in Free Trade Agreements (FTAs)*, by Cathleen D. Cimino-Isaacs and M. Angeles Villarreal; CRS In Focus IF10972, *Labor Enforcement Issues in U.S. FTAs*, by Cathleen D. Cimino-Isaacs; and See CRS In Focus IF10166, *Environmental Provisions in Free Trade Agreements (FTAs)*, by Richard K. Lattanzio and Ian F. Fergusson.

tried to limit the scope and enforceability of such provisions, or believe that the competence to address these issues lies elsewhere, such as the International Labor Organization (ILO). They also view trade agreements as enabling greater economic growth that can provide more resources for addressing labor and environmental issues.

Congress may consider how the proposed United States-Mexico-Canada Agreement (USMCA) addresses worker rights protection, an issue that is prominent in the negotiation of U.S. FTAs. Since 1988, Congress has included worker rights protection as a principal negotiating objective in trade promotion authority (TPA) legislation, and the United States has been in the forefront of using FTAs to promote core internationally-recognized worker rights consistent with the ILO *Declaration on Fundamental Principles and Rights at Work* (1998). The North American Free Trade Agreement (NAFTA) was the first U.S. FTA that addressed worker rights by committing the parties to enforce their own labor laws and to resolve disputes. The proposed USMCA has language similar to more recent FTAs, requiring countries to adopt, maintain, and not derogate from laws that incorporate ILO principles, including freedom of association and the effective recognition of the right to collective bargaining, elimination of all forms of compulsory or forced labor, effective abolition of child labor, and elimination of discrimination in respect of employment and occupation. It also has an additional commitment for Mexico to adopt and maintain labor laws and practices for protection of worker representation in collective bargaining.

On the environment, the United States has negotiated environmental provisions in FTAs, which have evolved over time. NAFTA was the first agreement to include environmental provisions, committing the parties to enforce their own laws and cooperatively resolve disputes in a special venue, among other goals. The Trade Act of 2002 was the first grant of TPA containing environmental negotiating objectives, calling for countries not to fail to enforce their own environmental laws in a manner affecting trade and investment. Environmental obligations were expanded in later U.S. FTAs and were largely reflected in the 2015 grant of TPA, which obligated parties to adopt and maintain laws consistent with multilateral environmental agreements (MEAs) to which they are a party. Parties also were obligated not to derogate from their laws in order to attract trade and investment. These provisions were subject to the same dispute settlement provisions as other parts of the agreement with the withdrawal of trade concessions as the ultimate penalty for noncompliance. The World Trade Organization (WTO) does not have provisions related to environmental protection, although negotiations are underway to eliminate tariffs for environmental goods, which the United States and other believe will support broader environmental goals. In the proposed USMCA, Congress may examine the extent to which environmental provisions are consistent with TPA and the strength of enforcement mechanisms for environmental commitments.

## Select U.S. Import Policies<sup>104</sup>

The United States often uses its import policy to accomplish broader foreign and domestic policy goals. For example, Congress created programs that provide duty-free access to the U.S. market to foster economic growth in less developed countries. In addition, to address unfair trade practices and thus provide relief to “materially injured” domestic producers and workers, Congress created an investigative process through which an additional duty is placed on imported merchandise to offset the amount at which the merchandise is found to be sold in the U.S. market at less than fair value, or to be subsidized by a foreign government or public entity. Congress also

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<sup>104</sup> Written by Vivian C. Jones and Brock Williams, Specialists in International Trade and Finance, and Christopher A. Casey, Analyst in International Trade and Finance. See CRS In Focus IF11030, *U.S. Tariff Policy: Overview*, by Christopher A. Casey.

helped to provide a competitive edge to U.S. business by suspending or reducing tariffs on imports used by domestic manufacturers to make downstream goods. As the current Administration's actions shift the trade landscape, Congress may conduct oversight of these policies and their implementation, including Trump Administration decisions to self-initiate anti-dumping investigations, which until these actions, had not occurred since 1985.

## **Trade Preferences<sup>105</sup>**

Since 1974, Congress has created six trade preference programs to assist developing countries. The following trade preference programs are still in effect:

- **Generalized System of Preferences** (GSP—expires December 31, 2020), which applies to all designated developing countries;
- **Caribbean Basin Economic Recovery Act** (CBERA—permanent), which includes under its umbrella, the Haitian Hemispheric Opportunity through Partnership Encouragement Acts (HOPE I and II—expires September 30, 2025) and the Haitian Economic Lift Program (HELP—expires September 30, 2025);
- **Caribbean Basin Trade Partnership Act** (CBTPA—expires September 30, 2020);
- **African Growth and Opportunity Act** (AGOA—expires September 30, 2025); and
- **Nepal Preference Program** (expires December 31, 2025).

These programs give preferential, temporary, nonreciprocal, duty-free access to the U.S. market for select products from developing countries designated by the Administration. The aim of the policy is to encourage eligible countries to develop viable domestic industries. The 115<sup>th</sup> Congress extended GSP, one of the largest and oldest of the preferential trade programs. However, since the CBTPA and GSP expire in September and December of 2020, respectively, the 116<sup>th</sup> Congress could consider further extending these programs. Given the Administration's discretion over product and country eligibility, Congress may seek to consult closely with the Administration over its enforcement of statutory eligibility criteria to ensure adherence to congressional objectives or examine possible reforms to the programs.

In line with its increased focus on reciprocity in U.S. trade relations, the Trump Administration has also expressed increased interest in potentially negotiating reciprocal trade agreements with current preference program beneficiaries. U.S. Trade Representative Robert Lighthizer, for example, emphasized the possibility of new reciprocal free trade agreement (FTA) negotiations with African countries in his remarks at the annual United States-Sub-Saharan Africa Trade and Economic Cooperation Forum ("AGOA Forum").<sup>106</sup> Congress has directed the Administration to seek such agreements in the past. In the 116<sup>th</sup> Congress, it may consider influencing the scope and prioritization of any new negotiations through consultations with the Administration, and it would ultimately have to pass implementing legislation to bring new FTAs into force.

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<sup>105</sup> Written by Vivian C. Jones and Brock Williams, Specialists in International Trade and Finance. See CRS Report RL33663, *Generalized System of Preferences (GSP): Overview and Issues for Congress*, by Vivian C. Jones; CRS Report R41429, *Trade Preferences: Economic Issues and Policy Options*, coordinated by Vivian C. Jones; and CRS In Focus IF10149, *African Growth and Opportunity Act (AGOA)*, by Brock R. Williams.

<sup>106</sup> USTR, "Statement of USTR at the Opening Plenary of the 2018 AGOA Forum," July 7, 2018, available at <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/july/statement-ustr-robert-lighthizer-0>.

## Trade Remedies<sup>107</sup>

Trade remedies are quasi-judicial administrative actions taken to mitigate injury (or the threat thereof) to domestic industries and workers caused by certain trade practices. Antidumping (AD) and countervailing duty (CVD) remedies provide relief from injurious imports that either are sold at less than fair value or subsidized by a foreign government. Safeguard (Section 201) actions provide temporary relief from import surges of fairly-traded goods. AD/CVD laws are administered primarily through the International Trade Administration (ITA) of the U.S. Department of Commerce, which addresses the existence and amount of dumping or subsidies, and the U.S. International Trade Commission (ITC), which determines injury to the U.S. industries petitioning for redress. In AD and CVD cases, the remedy is an AD or CVD “order” that places an additional duty assessed to offset the calculated amount of dumping or subsidy. World Trade Organization (WTO) rules permit the use of all three of these remedies.

Since a series of legislative changes expanded access to AD/CVD remedies in the 1970s, they have increased in use. As of October 22, 2018, there are 462 AD/CVD orders affecting imports from 47 countries (**Figure 15**).<sup>108</sup> The majority of these orders (51.3%) apply to iron and steel imports.<sup>109</sup> Critics of AD/CVD remedies argue that they are protectionist, opaque, overused by certain industries, based on poor economics, and give too much discretion to the ITA.<sup>110</sup> Advocates argue that AD/CVD remedies are based on sound economics, provide a safety valve necessary for the continuation of trade liberalization, and ensure a fairer trading system.<sup>111</sup> As part of its oversight function, Congress might consider how the current Administration’s priorities might affect the U.S. trade remedy regime, including, as noted above, self-initiation of investigations as opposed to industry-led petitions. Additionally, while the quasi-judicial nature of AD/CVD investigations may indicate that Congress intended AD/CVD actions to be conducted apart from political influence, the involvement of constituents can lead to Members being asked to write letters or testify at hearings on either side of a trade remedy action to support a constituent’s cause.

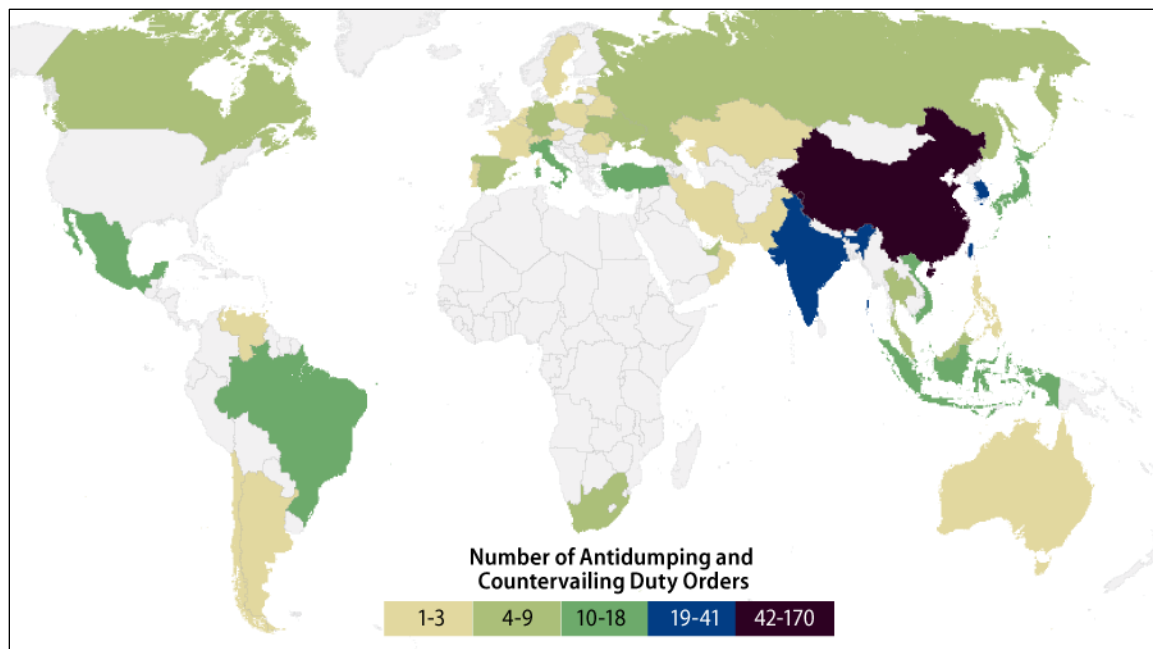
<sup>107</sup> See CRS Report RL32371, *Trade Remedies: A Primer*, by Vivian C. Jones and CRS In Focus IF10018, *Trade Remedies: Antidumping and Countervailing Duties*, by Vivian C. Jones.

<sup>108</sup> U.S. International Trade Commission, DataWeb.

<sup>109</sup> Ibid.

<sup>110</sup> See J. Michael Finger, ed., *Antidumping: How It Works and Who Gets Hurt*, (Ann Arbor: University of Michigan Press, 1993); Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* 7<sup>th</sup> ed. (Boston: Addison-Wesley, 2006), pp. 131-136; Timothy Meyer, “Free Trade, Fair Trade, and Selective Enforcement,” *Columbia Law Review* vol. 118, no. 2 (March 2018), pp 562-563.

<sup>111</sup> See Greg Mastel, *Antidumping Laws and the U.S. Economy* (London: M.E. Sharpe, 1998); Statement by U.S. Ambassador Michael Punke at the Negotiating Group on Rules in Geneva, Switzerland, July 13, 2010, USTR Press Release, available at <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2010/july/statement-us-ambassador-michael-punke-negotiating-gro>.

**Figure 15. U.S. Antidumping and Countervailing Duty Orders by Country**

**Source:** Figure created by CRS with data from the U.S. International Trade Commission.

**Note:** Current as of October 22, 2018.

### Miscellaneous Tariff Bills (MTBs)<sup>112</sup>

Many Members of Congress introduce bills to support importer requests for the temporary suspension of tariffs on chemicals, raw materials, or other nondomestically made components used as inputs in the manufacturing process. A rationale for these requests is that such tariff suspensions help domestic producers of manufactured goods reduce costs, making their products more competitive. Due to the large number of bills typically introduced, they are often packaged together in a broader miscellaneous tariff bill (MTB). The American Manufacturing Competitiveness Act of 2016 (P.L. 114-159) revised the process by directing the U.S. International Trade Commission (ITC) to receive importer petitions for reduced or suspended duties and report its findings directly to the U.S. House of Representatives Committee on Ways and Means and the U.S. Senate Committee on Finance. Using the new procedure, Congress passed P.L. 115-239, the Miscellaneous Tariff Bill Act of 2018. P.L. 114-159 also provides for the initiation of a new MTB process in 2019, which could be considered by Members in the 116<sup>th</sup> Congress.

### International Investment<sup>113</sup>

In 2017, the United States was the world's largest source of foreign direct investment (FDI) (\$342 billion) and the largest recipient of FDI (\$275 billion).<sup>114</sup> The U.S. dual position as a leading source and destination for FDI means that the United States has important economic, political,

<sup>112</sup> See CRS In Focus IF10478, *Miscellaneous Tariff Bills (MTBs)*, by Vivian C. Jones.

<sup>113</sup> Written by Shayerah Ilias Akhtar and Martin A. Weiss, Specialists in International Trade and Finance, and Christopher Casey, Analyst in International Trade and Finance.

<sup>114</sup> CRS In Focus IF10636, *Foreign Direct Investment: Overview and Issues*, by James K. Jackson and Shayerah Ilias Akhtar.

and domestic interests at stake in the development of international policies regarding direct investment. Investment is a major driver of trade, and U.S. investment policy is a critical part of the U.S. trade policy debate—intersecting with questions about economic impact, trade restrictions, national security, and regulatory sovereignty.

Traditionally, the United States has supported a rules-based open and liberalized investment environment, including by negotiating rules, disciplines, and market access commitments in trade agreements and administering investment promotion programs, while also reviewing certain proposed inbound foreign investment transactions for U.S. national security implications. The U.S. investment policy landscape may be evolving in the wake of the Trump Administration’s approach to investment issues in the proposed United States-Mexico-Canada Agreement (USMCA), as well as legislation passed in the 115<sup>th</sup> Congress to update and expand the scope of the Committee on Foreign Investment in the United States (CFIUS).

### Committee on Foreign Investment in the United States (CFIUS)<sup>115</sup>

Competition over technological leadership and changing dynamics in the global economy with the rise of emerging economies, such as China and state-led firms, has led to renewed debates in Congress over the impact of foreign investment on U.S. economic and national security interests. In general, U.S. policies treat foreign investors no less favorably than U.S. firms, with some exceptions for national security. In 2007, Congress asserted its role in formulating the scope and direction of U.S. foreign investment policy when the *Foreign Investment and National Security Act of 2007* (P.L. 110-49) was enacted, formally establishing the Committee on Foreign Investment in the United States (CFIUS), which serves the President in overseeing the national security implications of foreign direct investment. This law broadened Congress’s oversight role, and explicitly includes homeland security and critical infrastructure as issues that the President must consider when evaluating the national security implications. The law also grants the President the authority to suspend or block foreign investments that are judged to “threaten to impair” U.S. national security and requires review of investments by foreign investors owned or controlled by foreign governments. The law has been used five times to block a foreign acquisition of a U.S. firm, although a number of investments have been withdrawn before reviews were completed.

In 2017, growing concerns over the impact of Chinese investment in U.S. high-technology firms resulted in the introduction of bipartisan legislation to “strengthen and modernize” CFIUS. On August 13, 2018, President Trump signed into law the *Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018* (Title XVII, P.L. 115-232), which amends the current process for CFIUS (under P.L. 110-49) to review, on behalf of the President, the effect of investment transactions on U.S. national security.<sup>116</sup> The legislation represents the most comprehensive reform of the CFIUS review process since it was created, and notably expands the scope of transactions that fall under CFIUS’ jurisdiction. Certain provisions take effect immediately, while others, including some related to the expanded scope of CFIUS, are subject to further regulations (the U.S. Department of the Treasury issued temporary regulations in October 2018).<sup>117</sup> Some experts have suggested that the broad changes under FIRRMA could potentially

<sup>115</sup> Written by James K. Jackson, Specialist in International Trade and Finance. See CRS In Focus IF10177, *The Committee on Foreign Investment in the United States*, by James K. Jackson and CRS In Focus IF10952, *CFIUS Reform: Foreign Investment National Security Reviews*, by James K. Jackson and Cathleen D. Cimino-Isaacs.

<sup>116</sup> CRS In Focus IF10952, *CFIUS Reform: Foreign Investment National Security Reviews*, by James K. Jackson and Cathleen D. Cimino-Isaacs.

<sup>117</sup> The regulations (31 CFR Part 801) relate to a pilot program, which would implement authorities to expand the scope

lead CFIUS to take a more assertive role that emphasizes both U.S. economic and national security interests, particularly relative to the development of emerging or leading-edge technology. While specific countries are not singled out in the legislation, FIRRMA allows CFIUS to potentially discriminate among foreign investors by country of origin during the review of certain investment transactions. Greater scrutiny could be directed on transactions tied to certain countries, pending specific criteria defined by regulations. The debate over FIRRMA and its forthcoming implementation raises a number of questions for the 116<sup>th</sup> Congress, including the extent to which the amended review process will be successful in protecting U.S. national security interests and whether it balances the objectives of maintaining the traditionally open U.S. investment climate while preserving the competitiveness of U.S. firms.

### International Investment Agreements (IIAs)<sup>118</sup>

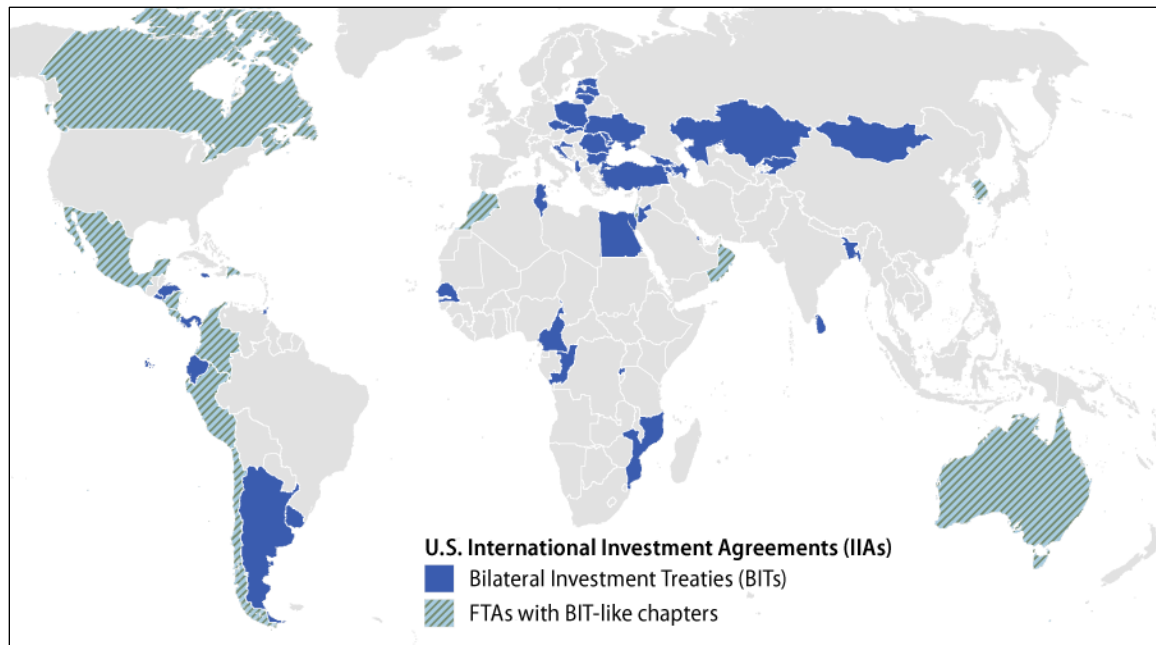
The United States negotiates international investment agreements (IIAs), based on a “model” Bilateral Investment Treaty (BIT), to reduce restrictions on foreign investment, ensure nondiscriminatory treatment of investors and investment, and advance other U.S. interests. U.S. IIAs typically take two forms: (1) BITs, which require a two-thirds vote of approval in the Senate; or (2) BIT-like chapters in free trade agreements (FTAs), which require simple majority approval of implementing legislation by both houses of Congress. While U.S. IIAs are a small fraction of the more than 3,300 IIA agreements worldwide,<sup>119</sup> they are often viewed as more comprehensive and of a higher standard than those of other countries (**Figure 16**).

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of transactions subject to CFIUS review, and make effective the mandatory “pre-filing” declaration process for transactions within the scope of the program. Temporary regulations were also issued to update existing regulations (31 CFR Part 800) in order to implement certain FIRRMA provisions that are to be immediately effective. See “Treasury Releases Interim Regulations for FIRRMA Pilot Program,” press release, October 10, 2018, <https://home.treasury.gov/news/press-releases/sm506>.

<sup>118</sup> Written by Shayerah Ilias Akhtar and Martin A. Weiss, Specialists in International Trade and Finance and Christopher Casey, Analyst in International Trade and Finance. See CRS Report R43052, *U.S. International Investment Agreements: Issues for Congress*, by Shayerah Ilias Akhtar and Martin A. Weiss; CRS Report R44015, *International Investment Agreements (IIAs): Frequently Asked Questions*, coordinated by Martin A. Weiss; and CRS In Focus IF10052, *U.S. International Investment Agreements (IIAs)*, by Martin A. Weiss and Shayerah Ilias Akhtar.

<sup>119</sup> CRS calculation based on data from United Nations Conference on Trade and Development (UNCTAD), International Investment Agreements Navigator database.

**Figure 16. U.S. International Investment Agreements**

**Source:** Figure created by CRS based on information from the Office of the U.S. Trade Representative and the U.S. Department of State.

A focal point for Congress on investment issues may be implementing legislation for the proposed United States-Mexico-Canada Agreement (USMCA). The investment provisions in USMCA differ significantly from those under the North American Free Trade Agreement (NAFTA) and previous FTAs and BITs entered into by the United States. Differences relate to investor-state dispute settlement (ISDS), the binding arbitration of private claims against host-country governments for violation of investment obligations under IIAs (e.g., obligations to provide nondiscriminatory treatment and a minimum standard of treatment to foreign investors). A longstanding cornerstone of U.S. trade agreements, ISDS has been favored widely in the U.S. business community as an important reciprocal form of protection for foreign investment that is modeled on U.S. law. At the same time, it is contested by some civil society groups based on concerns over its scope and fairness, among other issues. While ISDS is in the current NAFTA, the proposed USMCA would eliminate ISDS with respect to Canada and place specific limits with respect to Mexico. ISDS is available under the proposed USMCA for alleged violations by Mexico of national treatment, most-favored nation treatment, or direct expropriation. However, the proposed USMCA would limit other claims against Mexico, such as those of indirect expropriation, government contracts involving the oil, power generation, telecommunications, transportation, and infrastructure sectors. Claimants would also be required to first exhaust local remedies. Treatment of ISDS and other provisions common to IIAs could be a focus of proposed new U.S. trade agreement negotiations with Japan, the European Union (EU), and the United Kingdom (UK), especially considering the EU's push to include an Investment Court System in place of ISDS in its recent trade agreements and negotiations with other countries.

## **U.S. Trade Finance and Promotion Agencies<sup>120</sup>**

The federal government seeks to expand U.S. exports and investment through finance and insurance programs and other forms of assistance for U.S. businesses in order to support U.S. jobs and economic growth. Trade finance and promotion activities also may support U.S. foreign policy goals. Many of these activities are driven by demand from U.S. commercial interests.

A number of U.S. government agencies have distinct roles in carrying out these functions. Two agencies that may be focal points for legislative activity and oversight in the 116<sup>th</sup> Congress are the Export-Import Bank (Ex-Im Bank) and Overseas Private Investment Corporation (OPIC), discussed below. Collectively, trade promotion agencies raise issues for Congress in terms of their economic justifications, use of federal resources, and intersection with U.S. policy goals and priorities. They also raise questions about the federal trade organizational structure.

### **Export-Import Bank of the United States (Ex-Im Bank)<sup>121</sup>**

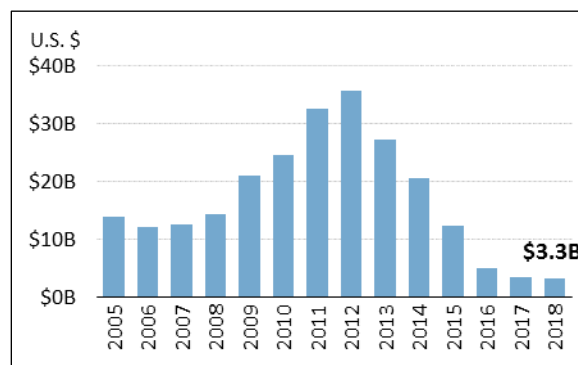
Ex-Im Bank, the official U.S. export credit agency (ECA), provides direct loans, loan guarantees, and export credit insurance to help finance U.S. exports of goods and services to contribute to U.S. employment. Driven by private sector demand, it aims to provide such support when alternative financing is not available or to counter government-backed export credit financing extended by other countries. Ex-Im charges interest, premiums, and other fees for its services, which it uses to fund its activities, and is subject to the annual appropriations process. Proponents of the agency contend that it supports U.S. exports and jobs, contributes financially to the U.S. Treasury, and manages its risks. Critics argue that it crowds out private sector activity, provides “corporate welfare,” and poses a risk to taxpayers.

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<sup>120</sup> Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance. See CRS In Focus IF11016, *U.S. Trade Policy Functions: Who Does What?*, by Shayerah Ilias Akhtar; CRS Report R45335, *Trade Related Agencies: FY2019 Appropriations, Commerce, Justice, Science and Related Agencies (CJS)*, by Keigh E. Hammond and M. Angeles Villarreal; CRS Report R43581, *Export-Import Bank: Overview and Reauthorization Issues*, by Shayerah Ilias Akhtar; CRS In Focus IF10017, *Export-Import Bank of the United States (Ex-Im Bank)*, by Shayerah Ilias Akhtar; CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by Shayerah Ilias Akhtar; CRS In Focus IF10659, *Overseas Private Investment Corporation (OPIC)*, by Shayerah Ilias Akhtar; CRS In Focus IF10673, *U.S. Trade and Development Agency (TDA)*, by Shayerah Ilias Akhtar; CRS In Focus IF10674, *SelectUSA Program: U.S. Inbound Investment Promotion*, by Shayerah Ilias Akhtar; and CRS Report R42555, *Trade Reorganization: Overview and Issues for Congress*, by Shayerah Ilias Akhtar.

<sup>121</sup> Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance. See CRS Report R43581, *Export-Import Bank: Overview and Reauthorization Issues*, by Shayerah Ilias Akhtar and CRS In Focus IF10017, *Export-Import Bank of the United States (Ex-Im Bank)*, by Shayerah Ilias Akhtar.

**Figure 17. Ex-Im Bank Authorizations of Finance and Insurance Transactions**  
(in billions of U.S. dollars)



**Source:** Figure created by CRS with data from the Export-Import Bank of the United States.

Ex-Im Bank operates under a renewable general statutory charter, which Congress extended through September 30, 2019 (P.L. 114-94). Despite its reauthorization, Ex-Im Bank is not fully operational. Since July 2015, the Board of Directors has lacked a quorum due to unfilled positions, constraining it from approving medium- and long-term export financing above \$10 million. Ex-Im Bank reported a backlog of almost \$40 billion in pending transactions at the end of FY2018.<sup>122</sup> In recent years, Ex-Im Bank authorizations for finance and insurance transactions have declined (**Figure 17**). In the 115<sup>th</sup> Congress, four presidential nominees to the Board were approved by the Senate Banking Committee and were pending before the Senate. In the 116<sup>th</sup> Congress, potential issues could be consideration of nominations to the Board, as well as whether to reauthorize Ex-Im Bank, and if so, for how long and under what terms.

Ex-Im Bank abides by Organization for Economic Cooperation and Development (OECD) guidelines for ECA activity with repayment terms of two years or more, which aim to ensure that price and quality—not financing terms—guide decisions on purchasing exports. Foreign ECAs, of both OECD and non-OECD members, increasingly are providing financing outside of the scope of the OECD Arrangement. ECA financing by China, a non-OECD member, is of particular concern. Within and outside of the reauthorization debate, Congress may consider the effectiveness of current international ECA rules and ongoing international negotiations to enhance existing ECA rules or develop new arrangements, as well as other opportunities to address concerns about “unfair” competition from foreign ECAs.

### Overseas Private Investment Corporation (OPIC) and the BUILD Act<sup>123</sup>

Spun out of the U.S. Agency for International Development (USAID) in 1971, OPIC has been the primary U.S. development finance institution (DFI). It aims to promote economic growth in developing and emerging economies by providing project and investment fund financing and insuring against the political risks of investing abroad for U.S.-linked private investors. It operates based on private sector demand. In FY2018, OPIC made \$3.3 billion in new commitments for investment projects in infrastructure and other sectors in sub-Saharan Africa,

<sup>122</sup> Ex-Im Bank, *2017 Annual Report*.

<sup>123</sup> Written by Shayerah Ilias Akhtar, Specialist in International Trade and Finance. See CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by Shayerah Ilias Akhtar; CRS In Focus IF10659, *Overseas Private Investment Corporation (OPIC)*, by Shayerah Ilias Akhtar; and CRS Report R45180, *OPIC, USAID, and Proposed Development Finance Reorganization*, by Shayerah Ilias Akhtar and Marian L. Lawson.

Latin America, the Indo-Pacific, and other regions.<sup>124</sup> OPIC charges fees for its services, which it uses to fund its activities. It is also subject to the appropriations process. In recent years, Congress has renewed OPIC's authority through appropriations legislation.

The 116<sup>th</sup> Congress will have responsibility for overseeing the Administration's consolidation and expansion of OPIC under the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act), which establishes a new U.S. International Development Finance Corporation (IDFC) as a successor to OPIC (see textbox).<sup>125</sup> The BUILD Act is part of the U.S. policy response to China's growing economic influence in developing countries, exemplified by China's Belt and Road Initiative. Based on the BUILD Act timeline, the IDFC could become operational as early as summer 2019.<sup>126</sup>

### OPIC vs. New IDFC

While the IDFC is to carry over OPIC's authorities and many of its policy requirements, some key distinctions include that the new IDFC will have

- **More tools:** authority to take minority equity positions in investments, provide technical assistance.
- **More capacity:** \$60 billion exposure cap vs. OPIC's \$29 billion cap.
- **Longer authorization:** seven years vs. OPIC's year-to-year authorization.
- **More specific oversight:** its own Inspector General (IG) vs. OPIC, which is under the USAID IG.

During a transition period, OPIC is to continue to perform its existing functions.

As the IDFC is operationalized, the 116<sup>th</sup> Congress may examine implementation issues and whether the current statutory framework allows the IDFC to balance both its mandates to support U.S. businesses in competing for overseas investment opportunities and to support development, as well as whether it enables the IDFC to respond effectively to strategic concerns, especially vis-à-vis China. Congress also may consider whether to press the Administration to pursue international rules on development finance comparable to export credit financing. More broadly, the IDFC's establishment could renew legislative debate over the economic and policy benefits and costs of U.S. government activity to support private investment.

## Export Controls and Sanctions<sup>127</sup>

National security considerations shape U.S. trade and investment policies. In addition to the national security implications of foreign investment discussed above in the context of the Committee on Foreign Investment in the United States (CFIUS), key programs include controls on exports for foreign policy and other objectives and the use of economic sanctions to achieve specific foreign policy goals. The 116<sup>th</sup> Congress may consider the balance of U.S. foreign policy and national security objectives against U.S. commercial and economic interests.

## Dual-Use Products and Export Controls<sup>128</sup>

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

<sup>124</sup> OPIC, FY2018 annual report.

<sup>125</sup> H.R. 302 /P.L. 115-254, signed into law on October 5, 2018. In addition to subsuming OPIC, the IDFC also is to absorb some development finance functions of USAID. OPIC is to be terminated when the IDFC is operational.

<sup>126</sup> OPIC anticipates that the IDFC could become operational as of October 1, 2019. See <https://www.opic.gov/build-act/overview>.

<sup>127</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance.

<sup>128</sup> Written by Ian F. Fergusson, Specialist in International Trade and Finance. See CRS Report R41916, *The U.S. Export Control System and the Export Control Reform Initiative*, by Ian F. Fergusson and Paul K. Kerr.

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 export. The U.S. Departments of Commerce, State, Energy, and Defense administer these programs.

In 2018, in conjunction with reform of the Committee on Foreign Investment in the United States (CFIUS), Congress passed the Export Control Reform Act (ECRA) (Subtitle B, P.L. 115-232), which authorized the dual-use export control system administered by the Department of Commerce and largely codifies current practices. The Obama Administration undertook a comprehensive reform of the U.S. export control system, which adopted a unified control list, created a single integrated information technology system, and established a single enforcement coordination agency. Responsibility for licensing exports is divided among the Departments of Commerce, State, and the Treasury, based on the nature of the product (munitions or dual-use goods) and basis for control. The Department of Defense has an important advisory role in examining license applications. Enforcement is shared among these agencies, as well as the U.S. Departments of Justice and Homeland Security.

Exports controls lie between the nexus of trade and security. Congress is increasingly concerned with illicit attempts to obtain U.S. technology by foreign powers (particularly China), in both the dual-use and high technology spheres (such as artificial intelligence, robotics, etc.). In addition to enhanced investment scrutiny through CFIUS, the new export control act provides for the creation of an interagency process to identify foundational and emerging technologies and assess their national security implications, and recommend levels of control. Congress may be interested in the implementation of this process and its role in maintaining U.S. superiority in critical technologies.

## **Economic Sanctions<sup>129</sup>**

Economic sanctions may be defined as coercive economic measures taken against a target to bring about a change in policies. They can include such measures as trade embargoes; restrictions on particular exports or imports; denial of foreign assistance, loans, and investments; blocking of foreign assets under U.S. jurisdiction; and prohibition on economic transactions that involve U.S. citizens or businesses. Secondary sanctions, in addition, can impede trade, transactions, and access to U.S.-located assets of foreign persons and entities in third countries that engage with a primary target. The United States maintains an array of economic sanctions against foreign governments, entities, and individuals. Specifically, the United States

- maintains sanctions regimes against foreign governments it has identified as supporters of acts of international terrorism (Iran, North Korea, Sudan, Syria); nuclear arms proliferators (Iran, North Korea, Syria); egregious violators of international human rights norms, democratic governance, or corruption standards (Belarus, Burundi, Central African Republic, Cuba, Democratic Republic of the Congo, Iran, Libya, Nicaragua, North Korea, Russia, Somalia, South Sudan, Sudan, Syria, Venezuela, Western Balkans, Yemen, Zimbabwe, and the Hizbollah organization); and those threatening regional stability (Iran, North Korea, Russia, Syria);

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<sup>129</sup> Written by Dianne E. Rennack, Specialist in Foreign Policy Legislation. See CRS Report R43835, *State Sponsors of Acts of International Terrorism—Legislative Parameters: In Brief*, by Dianne E. Rennack; CRS Report R45415, *U.S. Sanctions on Russia*, coordinated by Cory Welt; CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman; CRS Report R43311, *Iran: U.S. Economic Sanctions and the Authority to Lift Restrictions*, by Dianne E. Rennack; and CRS Report R41438, *North Korea: Legislative Basis for U.S. Economic Sanctions*, by Dianne E. Rennack.

- imposes economic restrictions on individuals and entities found to be active in egregious human rights abuses and corruption within the state system, international terrorism, narcotics trafficking, weapons proliferation, illicit cyber activities, conflict diamond trade, and transnational crime; and
- targets individuals and entities with economic and diplomatic restrictions to meet the requirements of the United Nations Security Council (Central African Republic, Democratic Republic of Congo, Eritrea, Guinea-Bissau, Iran, Iraq, Lebanon, Libya, North Korea, Somalia, South Sudan, Sudan, Yemen, and individuals affiliated with the Islamic State (Da'esh), al-Qaida, or the Taliban).

The 116<sup>th</sup> Congress may continue the deliberations of its predecessor to influence decision-making by President Trump's approach to foreign policy and national security. Sanctions are central to the debates over how to deter Iran's missile proliferation activities, normalize relations with North Korea while ensuring an end to its nuclear and missile programs, convince Russia to leave Ukraine, or end the conflict in Syria. The 115<sup>th</sup> Congress, in its waning days, showed some interest in reviewing the President's long-standing national emergency authorities to use sanctions; given the frequent use of the authorities, the 116<sup>th</sup> Congress may take a close look with an eye toward increasing its role in national security and foreign policy decisions.<sup>130</sup>

## **International Financial Institutions (IFIs) and Markets<sup>131</sup>**

Since World War II, governments have created and used informal forums, as well as more formal international organizations, to discuss and coordinate economic policies. More informal forums include the Group of 7 (G-7) and the Group of 20 (G-20), and more formal international organizations include the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the World Bank, and the World Trade Organization (WTO), among others. The United States has traditionally been a leader in these bodies, but the U.S. role is changing under President Trump. Congress plays a key role in shaping U.S. policy at international organizations and forums, including through authorizations and appropriations of U.S. funding, hearings, legislation that directs the Administration's policy and votes at the institutions, and Senate confirmation of high-level political appointees.

More broadly, given longstanding economic and foreign policy interests in a stable, thriving global economy, the 116<sup>th</sup> Congress may continue monitoring major economic developments overseas and their potential impact on U.S. economic and foreign policy interests. Key issues may include how other countries' exchange rate policies are impacting the U.S. economy, the role of the U.S. dollar in the global economy, trade developments, and ongoing and potential economic crises, particularly in indebted emerging markets and developing countries such as Argentina and Pakistan.

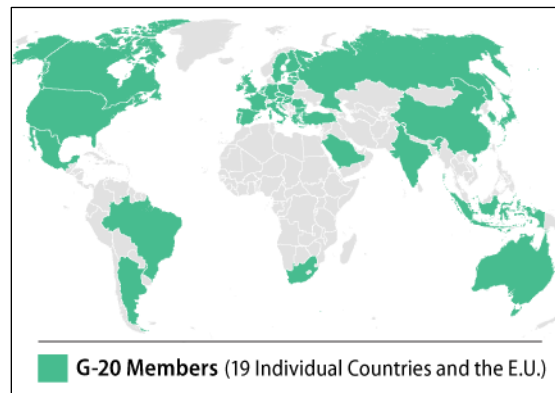
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<sup>130</sup> National Emergencies Act (IEEPA, P.L. 94-412; 50 U.S.C. 1601 *et seq.*), and International Emergency Economic Powers Act (IEEPA, P.L. 95-223; 50 U.S.C. 1701 *et seq.*).

<sup>131</sup> Written by Rebecca M. Nelson, Specialist in International Trade and Finance.

## International Economic Cooperation (G-7 and G-20)<sup>132</sup>

**Figure 18. G-20 Members**



**Source:** Figure created by CRS.

Between the 1970s and the 2000s, international economic discussions at the top leadership level took place among a small group of developed industrialized economies: the Group of 7 (G-7). The G-7 includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. In response to the global financial crisis, leaders decided that a broader group of developed and emerging-market economies, the Group of 20 (G-20), would become the premier forum for international economic cooperation and coordination (**Figure 18**). The G-20 includes the G-7 members, as well as Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union (EU). Although the G-20 is considered the “premier” forum, the G-7 continues to meet in parallel. G-7 and G-20 leader meetings (“summits”) are held annually; meetings among lower and senior level officials occur throughout the year.

Traditionally, the United States has played a strong leadership role at the G-7 and the G-20. For example, the United States was the leader in convening the G-20 to respond to the global financial crisis of 2008-2009. Under President Trump, however, the U.S. role in these forums has been shifting. The summits have become more contentious, with the United States increasingly isolated on key issues, particularly trade and climate change. At the G-7 summit in Canada in 2018, President Trump unprecedentedly withdrew his initial support for the G-7 joint leaders’ statement (communiqué). Agreement was reached on a communiqué at the G-20 summit in Argentina in 2018, but many analysts question the significance of the communiqué’s substance. In 2019, France and Japan are scheduled to host the G-7 and G-20 summits, respectively. Although U.S. participation in the G-7 and the G-20 is primarily driven by the Administration, Congress could exercise oversight through hearings and reporting requirements. Additionally, legislative action may be required to implement some commitments made by the Administration in the G-7 and G-20 process.

<sup>132</sup> Written by Rebecca M. Nelson, Specialist in International Trade and Finance. See CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by Rebecca M. Nelson.

## International Monetary Fund (IMF)<sup>133</sup>

The International Monetary Fund (IMF) is an international organization focused on promoting international macroeconomic stability. Created in 1945, it has grown in membership over the past six decades to 189 countries. Although the IMF's functions have changed as the global economy has evolved, today it is focused on surveillance of member states and the global economy, lending to member states facing economic crises, and technical assistance to strengthen members' capacity to design and implement effective policies.

The FY2016 Consolidated Appropriations Act (P.L. 114-47) authorized U.S. participation in an IMF reform package, which doubled the size of IMF core resources ("quota") and gave emerging-markets a stronger voice in the governance of the institution. The legislation also sunsets U.S. contributions to a supplemental fund at the IMF, the New Arrangements to Borrow (NAB), in 2022, the first time the United States reduced its financial commitment to the institution since it was created. Members are evaluating IMF rules on providing large loans, which were used controversially during the 2010-2012 Eurozone debt crisis. Legislation introduced in the 115<sup>th</sup> Congress, *The IMF Reform and Integrity Act* (H.R. 1573), would have limited the ability of the U.S. Executive Director to the IMF to vote for large IMF programs, especially, where the Fund is co-financing with larger creditors. In 2019, the IMF is to continue work on its review of IMF quota resources. IMF Managing Director Christine Lagarde has been laying the groundwork to seek an increase in country contributions to the Fund. According to David Lipton, the IMF's first deputy managing director, "As our world becomes increasingly multipolar, but the scope for national policies to respond to crises becomes more constrained, the IMF will be the indispensable institution."<sup>134</sup> The Trump Administration, however, does not appear to support a boost in Fund resources. At a December hearing before the House Financial Services Committee, Treasury Undersecretary David Malpass told Members that "[the Administration is] opposed to changes in quotas given that the IMF has ample resources to achieve its mission."<sup>135</sup> Undersecretary Malpass added that the Administration believes that recent reforms have improved the stability of the global monetary system and that countries have alternative resources to the Fund on which they could draw in the event of a crisis.

## Multilateral Development Banks (MDBs)<sup>136</sup>

Multilateral development banks (MDBs) provide financing funded from private capital markets to developing countries in order to promote economic and social development. The United States is a member, and major donor, to five major multilateral development banks (MDBs): the World Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. These institutions

<sup>133</sup> Written by Martin A. Weiss, Specialist in International Trade and Finance. See CRS Report R42019, *The International Monetary Fund*, by Martin A. Weiss and CRS In Focus IF10676, *The International Monetary Fund*, by Martin A. Weiss.

<sup>134</sup> James Politi and Sam Fleming, "IMF: the Fight to Woo a Sceptical US over Funding," *Financial Times*, October 8, 2018.

<sup>135</sup> Undersecretary of the Treasury David Malpass, *Prepared Testimony for House Financial Services Committee Hearing*, December 12, 2018.

<sup>136</sup> Written by Martin A. Weiss, Specialist in International Trade and Finance. See CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson; CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY2000-FY2019*, by Rebecca M. Nelson; and CRS Report R41537, *Multilateral Development Banks: How the United States Makes and Implements Policy*, by Rebecca M. Nelson and Martin A. Weiss.

were established after World War II to provide financing for economic development at a time when private sector financing, especially for war-torn, post-conflict, or developing countries, was not available. While the MDBs have thrived and grown over the past decades, the international economy has changed dramatically. Many developing and low-income countries are able to borrow on the international capital markets to finance their development projects. At the same time, emerging-market countries are creating their own MDBs, including the China-led Asian Infrastructure Investment Bank.

Congress authorizes and appropriates U.S. funding for the five major MDBs, which may shift under the Trump Administration. The Trump Administration has laid out a comprehensive reform agenda for the MDBs that includes, but is not limited to, creating lending limits to promote more robust financial discipline at the MDBs and graduate borrowers, especially China, and shift lending from higher income developing countries to lower income countries. The Administration is also seeking to better coordinate country programs and best-practices across.<sup>137</sup> Meanwhile, in 2018 the United States and other World Bank members agreed to a \$60.1 billion capital increase for the World Bank's main lending facility, the International Bank for Reconstruction and Development (IBRD), which would raise the IBRD's capital from \$268.9 billion to \$329 billion.<sup>138</sup> World Bank members also endorsed a \$5.5 billion capital increase for the International Finance Corporation (IFC), the World Bank's private-sector lending arm, which would more than triple the IFC's capital base from \$2.57 billion to \$8.2 billion. Congress would need to fully authorize and appropriate funds for any U.S. participation in the proposed capital increase.

### **The Asian Infrastructure Investment Bank (AIIB)<sup>139</sup>**

On October 24, 2014, China and 20 other countries signed an agreement to establish a new development bank, the Asian Infrastructure Investment Bank (AIIB). Formally established in late 2015, the AIIB has 87 members, including four G-7 economies (France, Germany, Italy and the United Kingdom). As its name suggests, the new entity is expected to focus on financing infrastructure projects throughout Asia. As of December 2018, the AIIB has approved 34 projects worth \$7 billion.<sup>140</sup> The United States is not a member of the AIIB.

Some observers are concerned that these new development banks may duplicate existing multilateral and regional institutions, and might provide financing with minimal, if any, policy conditionality and without adhering to established environmental and social safeguards, which many developing countries believe are burdensome. By contrast, the United States and other major donors consider policy conditionality, safeguards, and other governance best practices, including measures such as rules on procurement, as being central to the effectiveness of development assistance, and have used their leadership in the MDBs to advance these priorities. While the United States is not a member of the AIIB, and thus will not be authorizing and appropriating financial contributions, Congress has several avenues to shape U.S. policy toward the institution. These include oversight of the AIIB's operations and shaping the evolving relationship between the AIIB and the MDBs in which the United States is a member.

<sup>137</sup> Undersecretary of the Treasury David Malpass, *Prepared Testimony for House Financial Services Committee Hearing*, December 12, 2018.

<sup>138</sup> CRS In Focus IF10895, *2018 World Bank Capital Increase Proposal*, by Martin A. Weiss.

<sup>139</sup> Written by Martin A. Weiss, Specialist in International Trade and Finance. See CRS Report R44754, *Asian Infrastructure Investment Bank (AIIB)*, by Martin A. Weiss.

<sup>140</sup> AIIB homepage, <https://www.aiib.org/en/index.html>.

## Exchange Rates and Currency Manipulation<sup>141</sup>

Exchange rates, the price of currencies relative to each other, are among the most important prices in the global economy. They affect the price of every country's imports and exports, as well as the value of every overseas investment. Some U.S. policymakers have expressed concerns that other governments purposefully undervalue their currency to gain an unfair advantage for their exports, or "manipulate" their currencies, hurting U.S. companies and jobs. Countries have committed to refraining from currency manipulation through the International Monetary Fund (IMF), the G-7, and the G-20. Under U.S. law, the U.S. Department of the Treasury is tasked with reporting on and responding to currency manipulation. However, the IMF, the G-7, and the G-20 have never publicly labeled a particular country as a currency manipulator, and Treasury has not done so in more than two decades. Some Members of Congress have called for stronger actions to combat currency manipulation over the past decade. It was also a key issue for then candidate Donald Trump during the 2016 presidential campaign. Other policymakers have preferred a more cautious approach, arguing that U.S. consumers benefit when other countries have weak currencies and actions against currency manipulation risk retaliation that could hurt U.S. interests.

**Figure 19. Chinese Yuan per U.S. Dollar**



**Source:** Figure created by CRS with data from the IMF.

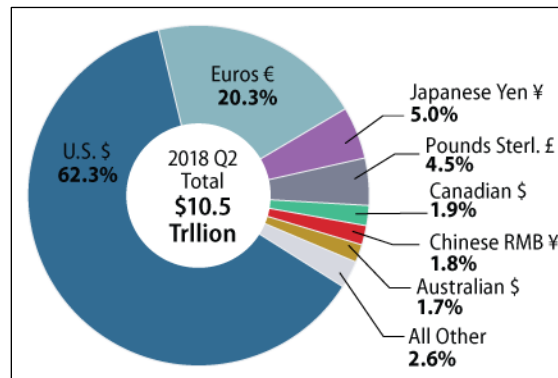
**Note:** An increase (decrease) represents a depreciation (appreciation) of the yuan relative to the U.S. dollar.

The 116<sup>th</sup> Congress may grapple with debates about currency manipulation in at least two contexts. First, as Congress considers implementing legislation for the proposed United States-Mexico-Canada Agreement (USMCA), it may examine the treatment of exchange rates in the agreement. The USMCA would include, for the first time in a trade agreement, enforceable provisions to combat currency manipulation among the signatories. U.S. concerns about currency manipulation have not focused on Canada and Mexico per se, but addressing currency manipulation in the USMCA may serve as precedent for future trade agreements. Second, China's currency policies have been a particular source of concern for U.S. policymakers. After appreciating in 2017, China's currency depreciated by almost 10% between April and November 2018 (**Figure 19**). Some analysts believe that the Chinese government is using currency policies to offset the effects of tariffs imposed on U.S. imports from China under Section 301. Currency policy could become a salient issue for Members in the trade disputes between the United States and China.

<sup>141</sup> Written by Rebecca Nelson, Specialist in International Trade and Finance. See CRS In Focus IF10049, *Debates over Currency Manipulation*, by Rebecca M. Nelson and CRS Report R43242, *Debates over Exchange Rates: Overview and Issues for Congress*, by Rebecca M. Nelson.

## Role of the U.S. Dollar<sup>142</sup>

**Figure 20. Central Bank Reserves**



**Source:** Figure created by CRS with data from the IMF.

For at least 70 years, the U.S. dollar has been the world's dominant currency. Central banks around the world hold a large portion of their reserves in U.S. dollars (**Figure 20**), and private companies use U.S. dollars for international transactions. Dollars make up nearly two-thirds of central bank reserves, countries' dollar imports are on average worth five times what they buy from the United States, and more than half of all global cross-border debt is denominated in U.S. dollars.<sup>143</sup> There are considerable benefits to having a reserve currency, including lower borrowing costs for the U.S. government. This cost advantage occurs because there is generally a willingness of foreign central banks to pay a liquidity premium to hold dollar assets.

Questions have been raised about whether the U.S. dollar could lose its status as a reserve currency. Some countries are pursuing or considering policies that challenge the dollar's role. For example, oil market transactions have traditionally been denominated in dollars, but China has begun trading oil futures in renminbi. Some countries have also discussed the creation of alternative payments systems, not centered on the dollar, as a way to circumvent U.S. financial sanctions. Broader concerns about the direction of U.S. economic policy, including rising national debt, as well as the predictability of U.S. policies, including trade conflicts with other countries, are also driving debates about the dollar's supremacy. However, most economists agree that in the short run there are no good alternatives.<sup>144</sup> The Eurozone is still recovering from its crisis, and China does not have a stable banking system or open capital account. However, the 116<sup>th</sup> Congress may consider the benefits it derives from dollar as a reserve currency and the long-term impact of various economic policies, such as fiscal policies and financial sanctions, on the role of the dollar in the global economy.

## Ongoing and Potential Economic Crises<sup>145</sup>

Analysts are growing increasingly concerned about debt sustainability in many emerging markets and developing countries. Many emerging markets experienced an influx of capital following the

<sup>142</sup> Written by Rebecca Nelson, Specialist in International Trade and Finance.

<sup>143</sup> "America Must Use Sanctions Cautiously," *Economist*, May 17, 2018.

<sup>144</sup> For example, see Megan Greene, "The Dollar Can Defend Its Global Reserve Role against EU and China," *Financial Times*, November 7, 2018.

<sup>145</sup> Written by Rebecca Nelson, Specialist in International Trade and Finance. See CRS In Focus IF10991, *Argentina's Economic Crisis*, by Rebecca M. Nelson; CRS In Focus IF10957, *Turkey's Currency Crisis*, by Rebecca M. Nelson; and CRS In Focus IF11000, *Pakistan's Economic Crisis*, by K. Alan Kronstadt and Martin A. Weiss.

global financial crisis of 2008-2009, as investors sought more profitable investment opportunities than in advanced economies, where interest rates were at historical lows. The influx of capital into emerging markets may have created investment bubbles, which could be vulnerable to changes in the availability or cost of financing, for example if and when the U.S. Federal Reserve raises interest rates. These dynamics started playing out in Argentina and Turkey in 2018, and there are concerns that other emerging markets similarly reliant on external financing may face similar pressures. Additionally, China has increasingly financed projects in developing countries, some of which, such as Pakistan, are starting to experience or exacerbating existing fiscal problems. Some analysts are concerned about whether such countries will be able to meet their financial obligations to China, and the implications if they are unable to do so.

The 116<sup>th</sup> Congress may monitor economic conditions in emerging markets and developing countries in terms of U.S. interests and implications for the role of the IMF. In terms of U.S. economic interests, U.S. economic exposure through trade, investment, and financial channels to emerging markets that faced the most significant pressures in 2018—Argentina and Turkey—is relatively limited. A broader crisis across emerging and developing markets could have more significant economic ramifications. Economic crises in emerging and developing countries could also have implications for U.S. foreign policy interests, depending on the specific countries in question. In terms of the IMF, Congress may monitor the IMF's role in responding to crises. With the United States as the IMF's largest shareholder, Congress may monitor in particular the size of and reforms attached to any IMF programs and the adequacy of IMF resources. Congress may also focus on the role of Chinese financing in countries approaching the IMF for assistance, including transparency on the size and terms of Chinese financing and burden sharing by China in any financial assistance package.

## Looking Forward

Members of Congress exert significant influence over U.S. economic and trade policy and its implementation through their legislative, appropriations, and oversight roles. Given current debates, fundamental questions about the future direction of trade and international economic issues may be key areas of interest for the 116<sup>th</sup> Congress. In engaging on these issues, Congress may

- evaluate the impact of Section 301, 232, and 201 tariffs on U.S. workers and firms, and consider legislation that alters the authority granted by Congress to the President to impose unilateral tariffs;
- consider implementing legislation for the USMCA, and conduct oversight of new bilateral trade negotiations with the EU, Japan, and UK;
- conduct oversight of the Trump Administration's policies at the WTO, including reform efforts;
- conduct oversight and take possible legislative action concerning a range of other trade issues, including U.S. trade relations with China and other major economies, as well as U.S. export and import policies and programs;
- consider legislation to reauthorize the U.S. Export-Import Bank, which expires on September 30, 2019;
- evaluate the implementation of major legislation passed during the 115<sup>th</sup> Congress, including CFIUS and export control reforms, as well as the creation of a new U.S. International Development Finance Corporation as a successor to OPIC;

- examine U.S. leadership in discussions over international economic policy coordination at the G-7 and the G-20;
- consider legislation to adjust U.S. funding to the World Bank; and
- monitor major developments in financial markets, including the impact of other countries' exchange rate policies on the U.S. economy, high levels of debt in emerging markets, and the role of the U.S. dollar.

U.S. trade and economic policy affects the interest of all Members of Congress and their constituents. Congressional actions on these issues can impact the health of the U.S. economy, the success of U.S. businesses and their workers, the standard of living of Americans, and U.S. geopolitical interests. Some of these issues may be highly contested, as Members of Congress and affected stakeholders have differing views on the benefits, costs, and role of U.S. trade policy. The dynamic nature of the global economy—including the increasingly interconnected nature of the global market, the growing influence of emerging markets, and the growing role of digital trade, among other factors—as well as the Trump Administration's reassessment of U.S. policies provide the backdrop for a potential robust and complex debate in the 116<sup>th</sup> Congress over a range of trade and finance issues.

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