

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is a darker shade of blue. The hourglass is centered on the page.

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*Foreign Affairs, Defense, and Trade: Key Issues for the
109th Congress*

Bruce Vaughn and Connie Veillette, Foreign Affairs, Defense, and Trade Division

December 27, 2004

Abstract. The 109th Congress will likely address a number of pressing foreign affairs, defense and trade issues. This report identifies the issues most likely to be taken up in the first session, and provides information and analysis to support Congress in shaping U.S. policy on these key issues. The report also provides lists of selected CRS products that provide more detailed analysis.

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Foreign Affairs, Defense, and Trade: Key Issues for the 109th Congress

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Foreign Affairs, Defense, and Trade: Key Issues for the 109th Congress

Summary

The 109th Congress will likely address a number of pressing foreign affairs, defense and trade issues. This report identifies the issues most likely to be taken up in the first session, and provides information and analysis to support Congress in shaping U.S. policy on these key issues. The report also provides lists of selected CRS products that provide more detailed analysis.

Since the terrorist attacks of September 11, 2001, Congress has increasingly been confronted with issues relating to the war on terrorism and homeland security. Congress will likely be particularly interested in the cost and progress of military operations in Iraq and Afghanistan, including reconstruction efforts, the ongoing war against terrorism in other parts of the world, Middle East stability and peace initiatives, Asian security, and the proliferation of weapons of mass destruction. Each of these topics receives particular attention in this report.

In addition to identifying key foreign policy challenges affecting U.S. interests around the globe, this report also describes the various means, both legislative and oversight, by which Congress will likely shape U.S. policy. Major decisions relating to foreign economic and security programs are discussed in the context of authorization legislation, and annual appropriation and supplemental appropriation requests, including ongoing military operations, reconstruction efforts, global health programs, and global counter-terrorism activities. The report also examines how U.S. relations with countries in Europe, the Middle East, Asia, Latin America, and Africa may affect U.S. interests such as counterterrorism, non-proliferation, and counter-narcotic programs. It identifies possible flash points — the Korean Peninsula, Iran, Israeli-Palestinian peace efforts — that may arise during the year.

Defense issues will likely be topics of considerable interest in the 109th Congress, including providing the proper level of funding for current military operations, guiding Department of Defense “transformation” initiatives, setting priorities on major weapons systems, and determining the proper size of military forces. Other defense issues covered include base realignment and closure and overseas basing requirements, special operations forces, ballistic missile defense, military personnel issues, and defense business operations.

The 109th Congress likely will be faced with an extensive trade agenda which will include the possible renewal of the President’s trade promotion authority and consideration of bilateral free trade agreements with Bahrain, the nations of the Central American Common Market, and the Dominican Republic, as well as the monitoring of ongoing free trade negotiations with a number of other nations. Other trade issues covered in the report include World Trade Organization related legislation, the end of textile and apparel quotas, trade deficit concerns, and efforts to rewrite and reauthorize the Export Administration Act. This report will not be updated.

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Foreign Affairs, Defense, and Trade: Key Issues for the 109th Congress

Issues of Continuity and Change in Foreign, Security, and Trade Policy

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The 109th Congress will face early funding and oversight issues under pressure of tight fiscal conditions in 2005. Challenges are likely to include providing the necessary resources to secure stability, democracy, and reconstruction in Afghanistan and Iraq, continue the global fight against terrorism, dissuade Iran, North Korea, and perhaps other countries from pursuing nuclear weapons, and adequately fund a number of other high priority programs. In February, the Administration is expected to ask for supplemental appropriations for defense, Iraq, and Afghanistan.

Many experts believe that long-term progress in the war on terrorism may rest on the ability of the United States and other Western democracies to win the global battle for “hearts and minds” especially in the Islamic world from which the Muslim terrorists seek to draw recruits and support. Opinion polls show increasingly negative perceptions of U.S. actions, intentions, and motives in many countries, possibly suggesting the need to develop and expand programs to counter these trends.

A key instrument in the fight to win “hearts and minds” is public diplomacy. The 109th Congress may address in the authorization and appropriations process steps to strengthen the State Department’s capabilities in public diplomacy, as well as programs designed to improve America’s image abroad, such as cultural exchanges, education programs, international broadcasting, and democracy initiatives, particularly targeted to Muslim countries. Success in Iraq and Afghanistan might do much to help the U.S. image. If the United States is able to seize the opening created by the death of Yasir Arafat to help move the Israeli-Palestinian peace process forward, that too could help strengthen U.S. credibility abroad. Attention is also likely to be given to policies and programs to address some of the conditions that terrorists are able to exploit, such as regional conflicts, brutal and corrupt regimes, failing states, and extreme poverty in many parts of the world

Other countries can and do provide assistance in some of these areas. The Congress might take up the question of how to increase multilateral cooperation and burden-sharing, as well as how to reduce tensions with some key U.S. allies resulting from differences over the Iraq war. There is likely to be a continuing debate over the evolution of U.S. alliances. Some see benefits in relying more on ad-hoc “coalitions of the willing” to respond to specific crises, thus eliminating the constraints on U.S. action that formal alliance mechanisms entail. Others argue that U.S. alliances are

more important than ever for U.S. security and world stability, even with current disparities in military capabilities. They maintain that a growing number of problems can no longer be solved by individual nations acting alone and that only U.S. leadership can bring international consensus on difficult problems.

The 109th Congress is likely to continue to take a lead in pressing for U.N. reform, especially with regard to issues of effectiveness, waste, and fraud. Members have been outspoken in their disappointment over recent performance of the U.N. in several international crises. Some have even suggested that the United States should review the utility of its continued participation in the body. Congress will likely weigh foreign aid priorities as it debates appropriations levels for major initiatives such as the Millennium Challenge Account for developing countries that meet specific performance criteria, and programs to fight HIV/AIDS and other communicable diseases. Considerable resources have been promised and provided for these programs. Sustaining these levels while providing for other contingencies and initiatives might prove challenging.

As the 109th Congress opens, it is facing defense issues whose proponents, and directions, may be pulling in two notably different directions. Over the past 18 months the organization, structure, doctrine, and personnel policies of the armed forces, especially the Army and Marine Corps, have been reoriented toward supporting the sustained military campaigns against Islamic fundamentalist insurgencies in Iraq and Afghanistan. The Congress has been in the forefront of this effort, approving large supplemental appropriations to finance the wars and conducting often pointed oversight of their prosecution. Congress has, often over Administration objections, directed increases in military compensation and benefits to ensure that both overall military manpower levels and troop strength in the theaters of war can be maintained. After much congressional prodding, the Administration has finally agreed to increasing active duty Army strength. Funds have been directed toward Iraq/Afghanistan-specific programs such as the “up-armored” vehicles much in the news recently, or toward refurbishing and “resetting” the equipment of units which return from both theaters of war, knowing that in another year they will almost certainly return. A complex restructuring of Army major combat units — arguably the most fundamental since the early stages of World War II (1941-1945) — designed to create more deployable units and thus shorter tours of duty in a combat zone, as well as more tactical flexibility, is under way.

At the same time, Secretary of Defense Rumsfeld has continued to emphasize the “transformation” of the armed forces, a process driven mostly by information technology advances and associated changes in doctrine and concepts. As first propounded, transformation tended to emphasize lightness, mobility, technological sophistication, and hardware over firepower, sustainability, and the size of the force. Although the Administration has made some adjustments to deal with the immediate situation, it appears to have decided to continue fighting a major war in Iraq, continue the transformation process, and maintain the existing level of effort in the Global War on Terrorism (GWOT) centered, for now, in and around Afghanistan — all without major increases in the size of the active duty armed forces. Thus, the Administration’s defense programs continue to include large efforts in ballistic missile defense and new generations of highly sophisticated tactical aircraft and major naval combatant vessels. These, however, are frequently criticized in the

Congress as a misallocation of resources, given that the counterinsurgency campaigns in Afghanistan and Iraq require large numbers of infantrymen, and entail intimate contact with civilians in a way that emphasizes human more than technological factors and expertise. In particular, many congressional critics suggest that whatever advantages can be realized from improvements in the existing force structure, the active duty military — particularly the Army — is simply too small to support existing combat operations while being ready to meet potential threats elsewhere in the world. The Administration, however, notes that even “low-intensity” conflicts are greatly benefitting from sophisticated technology, particularly in the interrelated areas of command, control communications, and intelligence, and argues that the high expense of military personnel increases would not necessarily be cost effective. It appears, therefore, that the 109th Congress will be exercising its defense-related responsibilities in an environment marked by competing perspectives on the extent to which the current conflicts in Iraq and Afghanistan are valid models for long-term defense policy.

Trade issues will also be prominent in 109th Congress. Early in 2005, President Bush is expected to request that his authority to negotiate trade agreements under expedited congressional approval (trade promotion authority) be extended for two years beyond its June 30, 2005 expiration date. The extension would happen automatically unless either chamber passes a resolution of disapproval. In addition, the President is expected to send Congress legislation to implement the U.S. free trade agreement with Bahrain early in the first session, and may also send legislation to implement the FTA with five Central American countries (CAFTA) and possibly the Dominican Republic if a dispute over a recent tax placed on high-fructose syrup drinks can be resolved. The Bush Administration will likely complete FTA negotiations with several other countries and launch negotiations with still others this year.

Before the end of its first session, the 109th Congress will have to decide whether to introduce and act on a joint resolution to disapprove continued U.S. participation in the WTO. Furthermore, the 109th Congress may consider whether to comply with a WTO dispute resolution against the Continued Dumping and Subsidy Offset Act (CDSOA), also known as the “Byrd Amendment” after its chief sponsor, Senator Robert Byrd. Anxiety about job losses from foreign competition and the growing U.S. trade deficit is also likely to focus considerable congressional attention on China’s trading practices, including its undervalued currency.

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Policy Priorities

Iraq and Afghanistan

U.S. forces remain engaged in combat in both Iraq and Afghanistan, but are meeting far more resistance from anti-U.S. fighters in Iraq than in Afghanistan. Afghanistan appears to be moving steadily, if slowly, toward stability and economic reconstruction. In contrast, Iraq's planned elections in January 2005 are in jeopardy and economic reconstruction is proceeding slowly.

Situation in Iraq. [Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612)] Operation Iraqi Freedom (OIF) accomplished the U.S. objective of overthrowing Saddam Hussein, but replacing his regime with a stable, moderate, democratic political structure has run into significant difficulty. That outcome would contribute to the goal of preventing Iraq from becoming a sanctuary for terrorists, a key recommendation of the *9/11 Commission Report*, issued in July 2004. To implement U.S. programs to stabilize and reconstruct Iraq, \$20.9 billion in assistance has been provided for Iraq through two supplemental spending bills, of which only \$11.6 billion (55%) had been obligated as of November 23, and \$3.6 billion (17%) expended. This rate of spending suggests that, at least in the first half of 2005, Congress may not need to address further appropriations for Iraq reconstruction. Congress will likely seek to continue close oversight of current aid programs for Iraq. These appropriations include funds to train and equip Iraq's various security forces.

In 2002 and 2003, President George W. Bush characterized Iraq as a gathering potential threat to the United States because of its refusal to abandon its weapons of mass destruction (WMD) programs and its potential to transfer WMD to terrorist groups. The Administration stressed that regime change through U.S.-led military action would yield benefits beyond disarmament and reduction of support for terrorism, such as liberation of the Iraqi people from an oppressive regime and promotion of democracy throughout the Middle East. OIF began March 19, 2003 and the regime fell on April 9, 2003. Although the overthrow of Saddam initially appeared to be welcomed by a broad range of Iraqis, resistance to the U.S.-led post-Saddam occupation escalated throughout 2003 and 2004, complicating U.S. efforts to build democracy and to establish legitimate and effective Iraqi political and security bodies. Partly in an effort to satisfy Iraqi demands for an end to occupation, the United States decided to accelerate the hand over of sovereignty. An interim government was named on June 1, 2004, and the hand-over took place on June 28, 2004. Current plans are for elections for a transitional National Assembly (which will choose an interim government) on January 30, 2005, with votes on a permanent constitution by October 31, 2005, and for a permanent government to take place by December 15, 2005. Virtually all of these deadlines are to some degree in question because of the persistent insurgency, which is particularly strong in the areas of central and northern Iraq inhabited by Sunni Arabs, who were dominant in the regime of Saddam Hussein but now see themselves likely to be displaced by the majority Shiite Arabs. The insurgency threat will likely remain a key challenge in 2005.

U.S./International Military Operations. [Steve Bowman, Specialist in National Defense (7-7613) and Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612)] About 150,000 U.S. troops, joined by about 24,000 international troops, are conducting combat against insurgents, as well as peacekeeping in areas that are relatively stable. In an effort to prepare the way for Iraqis to eventually secure their own country, U.S. officers, in partnership with some regional countries and officers from NATO, are training Iraqi military, paramilitary, and police forces. However, these forces have generally performed poorly when challenged by insurgents. The Bush Administration asserts that U.S. policy in Iraq will ultimately succeed as U.S. trainers and the interim Iraqi government build the new Iraqi forces. Some believe the United States should add troops to the current level to better combat insurgents in areas — mainly those inhabited by Sunni Arabs — in which the insurgents are strong. Others believe the United States needs to take new steps to recruit major international force contributors, and yet some others believe that the United States should pull out of Iraq entirely. These options, as well as Bush Administration assessments of the progress of stabilizing Iraq, are likely to be discussed at hearings of several oversight committees in the 109th Congress and during consideration of the FY2005 Supplemental to fund Iraqi operations.

Economic Reconstruction. [Curt Tarnoff, Specialist in Foreign Affairs (7-7656)] A wide range of reconstruction projects are underway. For a variety of reasons, not least of which is the poor security situation, these efforts have produced a somewhat mixed picture. On the one hand, health facilities are being rehabilitated, healthcare providers trained, and children immunized. Neighborhood councils have been established throughout the country. School materials are being provided and schools renovated. A range of economic policy reforms have been initiated. Business centers have been set up and loan programs established. Positive claims for the success of reconstruction programs have been countered by reports of slow and ineffective implementation. Production of electricity and oil, while increasing over time, have not achieved long-term goals, in part due to sabotage. Politically sensitive policy reforms, including privatization of state-owned enterprises, have been put on hold. The one consistent bright spot among reconstruction claims, a successful health program, is now marred by reports that acute malnutrition among children has nearly doubled since 2003. Critics suggest there has been a failure of Administration officials to spend U.S. assistance funds with sufficient speed to make a real impact on the country's problems and win Iraqi hearts and minds.

CRS Report RL31339, *Iraq: U.S. Regime Change Efforts and Post-Saddam Governance*, by Kenneth Katzman.

CRS Report RS21968, *Iraq: Post-Saddam National Elections*, by Kenneth Katzman.

CRS Report RL31833, *Iraq: Recent Developments in Reconstruction Assistance*, by Curt Tarnoff.

CRS Report RL31701, *Iraq: U.S. Military Operations and Costs*, by Steve Bowman.

Situation in Afghanistan. [Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612) and Christopher Blanchard, Analyst in Middle Eastern Affairs (7-0428)] Afghanistan appears to be gradually stabilizing after more than two decades of warfare, including a U.S.-led war that brought the current government to power. Successful presidential elections held on October 9, 2004 might accelerate the stabilization and economic reconstruction process. The *9/11 Commission Report* recommends a long-term commitment to a secure and stable Afghanistan. Most of its Afghanistan-specific recommendations are a major part of the U.S. policy framework, as encapsulated in the Afghanistan Freedom Support Act of 2002 (P.L. 107-327). To carry out U.S. stabilization and economic reconstruction programs in Afghanistan, the United States gave Afghanistan a total of about \$1.9 billion for FY2004, mostly funded in the FY2004 supplemental appropriation (P.L. 108-106). The FY2005 Consolidated Appropriation Act (H.R. 4818/P.L. 108-447) also earmarks \$980 million for U.S. efforts to stabilize and reconstruct Afghanistan.

Although security remains one of the most serious challenges facing Afghanistan today, since the defeat of the Taliban in December 2001, Afghanistan no longer serves as a safe base of operations for Al Qaeda. Afghan citizens are enjoying new personal freedoms that were forbidden under the Taliban. Political reconstruction is following the route laid out by major Afghan factions and the international community during the U.S.-led war, although somewhat more slowly than had been hoped. A *loya jirga* (traditional Afghan assembly) adopted a new constitution on January 4, 2004. Because of security concerns and factional infighting, the Afghan government delayed presidential elections from June to October 9, 2004, and parliamentary elections from June 2004 to the spring of 2005. The presidential elections were held amid high turnout and minimal violence. Interim president Karzai was declared first-round winner on November 3, 2004, and his opponents have accepted that result, despite some initial claims of vote fraud.

U.S. officials have expressed concern that Taliban insurgents, Al Qaeda operatives, and associated regional terrorist organizations are profiting from and consolidating the illegal cultivation and trafficking of opium and heroin in Afghanistan, with an associated increase in corruption of regional and local officials. The continuing survival of warlords and regional militia, some of whom benefit directly from the narcotics trade, remains a significant challenge to the authority of Afghanistan's elected government as well as to the general security and stability of the country and its population. Each of these trends undermines progress that has been made by Afghan and international authorities in their efforts to improve the lives of ordinary Afghans and reform the country's political and economic systems. In light of the *9/11 Commission Report* recommendation that the United States make a full commitment to the stability and security of Afghanistan, Administration officials have placed renewed emphasis on counternarcotics as a key component of U.S. efforts in Afghanistan. On November 17, 2004, the State Department announced the interagency "Plan Afghanistan" initiative, which will redouble U.S. counternarcotics efforts in Afghanistan through public-awareness outreach, judicial reform, alternative development programs, interdiction, and a broad opium poppy eradication campaign. State Department officials intend to support the initiative with \$780 million in reprogrammed funding from a variety of accounts.

U.S./International Military Operations. [Andrew Feickert, Specialist in National Defense (7-7673) and Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612)] U.S. security stabilization measures focus on strengthening the central government by building an Afghan National Army; deploying a 6,500-person multinational International Security Assistance Force (ISAF) to patrol Kabul and other cities; setting up 19 regional enclaves to create secure conditions for reconstruction (Provincial Reconstruction Teams, PRTs); and disarming militia fighters. Although some international agencies have been skeptical of the concept of PRTs because they blend military activity with reconstruction, some observers say the PRTs have generally had a positive impact on security and have facilitated reconstruction. Thus far, about 15,000 militia fighters have handed in their weapons under the U.N.-run program that provides them subsidies and training to enter civilian life. Separately from ISAF, about 18,000 U.S. forces, joined by 2,000 troops from 36 other nations, continue to combat a low-level Taliban-led insurgency in some parts of the country, and the insurgency appears to have lost traction over the past year. Some Taliban are said to be considering entering the legitimate political process.

Economic Reconstruction. [Rhoda Margesson, Analyst in Foreign Affairs (7-0425)] Because Afghanistan's security appears to be improving, economic reconstruction is proceeding not only in Kabul but in all regions, including Qandahar — the former seat of the Taliban regime. As evidence of success, an accelerated U.S. economic reconstruction plan showcased the completion of the first layer of the Kabul-Qandahar roadway project (Phase I) on December 16, 2003. According to USAID, Phase II paving is well underway, as is work on shoulders, bridges, and the road's drainage system. Numerous other examples of U.S. economic reconstruction initiatives are analyzed in a General Accounting Office (GAO) report: *Afghanistan Reconstruction* (GAO-04-403, June 2004.) The international community continues to provide significant amounts of aid and resources for the reconstruction effort and has indicated a willingness to assist in the long-term restoration of Afghanistan. The outcomes of international donor conferences since January 2002 resulted in pledges (through 2009) of more than \$13 billion, with more than \$3 billion disbursed as of September 2004. Reconstruction needs are estimated by some to be more than \$15-\$30 billion over the next decade.

CRS Report RL30588, *Afghanistan: Post-War Governance, Security, and U.S. Policy*, by Kenneth Katzman.

CRS Report RS21922, *Afghanistan: Presidential and Parliamentary Elections*, by Kenneth Katzman.

CRS Report RL32686, *Afghanistan: Narcotics and U.S. Policy*, by Christopher Blanchard.

CRS Report apfor37, *Afghanistan Reconstruction* (in the CRS Foreign Operations Appropriations Briefing Book), [<http://www.congress.gov/brbk/html/apfor37.html>].

Cost and Budget Issues. [Amy Belasco, Specialist in National Defense (7-7627)] In early February 2005, the Administration is expected to submit its request for additional funding to cover the cost of war-related operations in Iraq and Afghanistan, and enhanced security for defense installations for the rest of FY2005. This supplemental funding request would be in addition to the \$25 billion that Congress already provided in Title IX of the regular FY2005 Department of Defense (DOD) appropriations to cover those costs for the first few months of the fiscal year.

Potential Size of Supplemental and Previous Funding. According to press accounts, DOD may request an additional \$65 billion to \$80 billion more for FY2005 in its February request. Including the \$25 billion already appropriated would bring total funding for military operations in Iraq and Afghanistan and enhanced security between \$90 billion and \$105 billion in FY2005 — a level that would be substantially higher than the \$65.2 billion provided to DOD in the FY2004 Emergency Supplemental (P.L. 108-106). Although the \$25 billion already provided for FY2005 war costs is likely to run out by January, DOD can use its FY2005 peacetime appropriations to finance or “cash flow” war operations for several additional months. Nonetheless, Congress is likely to face pressure to enact supplemental appropriations quickly. Such supplemental funds support over 300,000 military personnel who are dedicated to operations in Iraq, Afghanistan and enhanced security, including both those deployed and those supporting these missions.

Since the September 11 attacks, Congress has appropriated about \$203 billion for Iraq, Afghanistan and enhanced security for DOD installations, including the \$25 billion for FY2005. As of the end of FY2004, DOD had allocated about \$178 billion to the three missions: about \$105 billion for the cost of Iraq; about \$50 billion for Afghanistan; and about \$23 billion for enhanced security for defense installations. By the third year since the September 11 attacks and the Taliban’s 2001 defeat, operations in Afghanistan cost about \$10 billion and enhanced security for defense installations about \$3.6 billion annually, spending levels that are about half the size of those two years earlier. With the recent rise in U.S. military personnel in Afghanistan to about 18,000, costs may creep upwards, but that could be offset by lower costs for enhanced security as DOD reduces the number of reservists providing guard duty at bases in order to provide more reserve forces in Iraq. On the basis of recent experience, DOD may assume that the cost of Afghanistan and enhanced security is about \$14.0 billion in FY2005.

Funding For Iraq. The cost of operations in Iraq, however, has proved to be higher than expected because of the upsurge in attacks on U.S. and Iraqi forces in recent months. Obligations for military operations in Iraq, which are contractual costs, grew from about \$44.2 billion in FY2003, the year when the U.S. invaded, to an estimated \$62.6 billion in FY2004. Although personnel costs could grow because of the recent decision to increase the number of U.S. military personnel in-country to 150,000 to cope with the increased intensity of operations and to provide enhanced security before January’s elections, that could be offset by the fact that fixed expenses — e.g., for basing facilities — may not need additional funding. If DOD assumes its FY2005 costs for operations for Afghanistan and Iraq and enhanced DOD security will be similar to FY2004, then the Administration’s request for a supplemental in February might be as low as \$50 billion, but most observers expect the request to be higher because the DOD will ask for more funds to re-set the force.

Re-setting the Force and Protecting Troops. Current costs, however, reflect some but not all of the amounts needed to repair or replace damaged or destroyed equipment, sometimes referred to as “resetting the force,” costs that may prove to be substantial. Although DOD received about \$5 billion in each of the previous two supplementals to replace equipment, press reports suggest that the services may request substantially more in the FY2005 supplemental. The Army, in particular, could request several billions of dollars to “modularize” or re-design combat and combat-related units, a transformation initiative launched last year. That initiative is intended both to increase the number of units available for deployment to reduce the strain on personnel and to increase the capability and responsiveness of these new units. The Army plans to pay for the cost of establishing these units entirely from supplementals, which could be controversial. The Air Force and the Marine Corps may also request funding to replace and repair equipment, repair that has been delayed because equipment remain in theater. If DOD again expands its requirements, the supplemental funding request could also include funding for force protection equipment — e.g., uparmored HUMVEE vehicles and body armor for troops — beyond the nearly \$2 billion already appropriated as part of the initial \$25 billion in war funding and the substantial funding from earlier supplementals. DOD may also request funds to replace those transferred from other programs to pay for immediate force protection needs.

Potential Issues. During consideration of the supplemental request, Congress is likely to debate the scope of the U.S. commitment in Iraq — both the number of troops needed and potential long-term costs. That may include whether the size of the active-duty Army needs to be expanded in order to meet requirements in Iraq over the next several years and prevent excessive stress on personnel from frequent deployments. DOD has argued that it can accommodate these needs with a temporary increase in the number of active-duty personnel and an ongoing restructuring initiative that would shift about 100,000 military personnel from less to more critical skill specialties. Congress required that DOD permanently increase military personnel end-strength by 23,000 in FY2005. Congress may again debate whether benefits for military personnel need to be expanded in order to ensure that the Army meets its recruitment and retention goals.

On the issue of costs, Congress may focus on both the near and long-term cost and the effect on the deficit. According to a June 25, 2004 CBO estimate, the cost of the military operations in Iraq and Afghanistan, and enhanced DOD security could total an additional \$131 billion to \$245 billion between FY2005 and FY2009, depending on the number of U.S. troops needed and the pace of a drawdown plan. Congress may also debate whether some or all funds should be provided in regular rather than supplemental appropriations, whether the Army’s proposed transformation and restructuring should be entirely funded in the supplemental, and whether troops’ force protection needs are adequately funded in the supplemental. Funding provided in emergency supplemental appropriation acts is not subject to limits set in annual budget resolutions. Another likely issue is the amount of funding flexibility to give DOD and the type of oversight mechanisms that Congress may require. The FY2005 supplemental may also include funds for construction of the new U.S. Embassy in Baghdad.

CRS Report RS21644, *The Cost of Operations in Iraq, Afghanistan, and Enhanced Security*, by Amy Belasco.

The International Counter-Terror Effort **[Raphael Perl, Specialist in International Affairs (7-7664)]**

Terrorism is a global, national, and transnational phenomenon. Understanding the global nature of the threat and the international policy response is central to formulation of policy and its implementation. How to best combat the increasingly decentralized Al Qaeda network, and how to enlist allies in this endeavor, remain top policy concerns for both the Administration and Congress. Important as well is how to best address escalating terrorist/insurgent activity in Iraq and Afghanistan. The issue of Saudi support for terrorist causes remains an issue as well. Questions relating to funding and prioritization of anti-terrorism programs are likely to remain ongoing issues of congressional concern throughout the 109th Congress. This is especially the case as Al Qaeda has announced its intention to raise the costs of counter-terrorism for the United States.

Another likely subject of congressional focus is implementation of new intelligence reform measures (Intelligence Reform and Terrorism Prevention Act of 2004 [S. 2845/P.L. 108-458]), particularly how these measures will play out in practice and within a framework mindful of the protection of civil liberties and the potential for abuse posed by a more centralized intelligence structure. Although the focus of the 9/11 Commission's efforts centered on intelligence issues, recommendations touched other areas as well. Anti-terrorism finance policy, in particular, is one area flagged by the Commission as ripe for fine-tuning, if not reform, and the 109th Congress is likely to pursue this issue. Others include denial of terrorist sanctuaries, through a range of programs including assistance to failing states and identifying ways to measure success, or lack thereof, of counter-terrorism policy and programs.

Finally, there is the issue of the impact of counter-terrorism policy on other foreign policy goals, such as reducing drug production in Afghanistan and promoting democracy in Middle Eastern and Southeast Asian countries upon whose support the United States relies in the war on terror. As it increasingly considers whether that support for such authoritarian regimes fuels support of, and recruitment for terrorist causes, the 109th Congress is likely to give this issue increased attention as it exercises its legislative and oversight functions.

CRS Report RL32522, *U.S. Anti-Terror Strategy and the 9/11 Commission Report*, by Raphael Perl.

CRS Report RL32518, *Removing Terrorist Sanctuaries: The 9/11 Commission Recommendations and U.S. Policy*, by Francis T. Miko, coordinator.

CRS Issue Brief IB10119, *Terrorism and National Security: Issues and Trends*, by Raphael Perl.

Pakistan. [Alan Kronstadt, *Analyst in Asia Studies (7-5415)*] Pakistan continues to play a vital role in U.S.-led counterterrorism efforts. Al Qaeda forces that fled from Afghanistan with their Taliban supporters remain active on Pakistani territory. Al Qaeda is believed to have links with indigenous Pakistani terrorist groups that have conducted anti-Western attacks and that support separatist militancy in Indian Kashmir. Al Qaeda founder Osama bin Laden and his lieutenant, Ayman al-Zawahiri, are believed to be in Pakistan. Two December 2003 attempts to assassinate President Musharraf, and failed attempts to assassinate other top Pakistani officials in summer 2004, were linked to both Al Qaeda and to indigenous terrorist groups. There are concerns that U.S.-designated terrorist groups have ties with some low-level elements of Pakistan's security apparatus and/or Islamist political parties. In the latter half of 2003, the Islamabad government began limited military operations in the traditionally autonomous tribal areas of western Pakistan where Islamic militants are active. Such operations intensified in 2004. Numerous top Al Qaeda leaders have been killed or captured in Pakistan; more are believed to be at large in Pakistan. While Pakistan has claimed success in its battles with Islamic militants in the tribal areas, all "high-value targets" were found in the country's urban centers, especially Karachi.

The United States maintains close counterterrorism cooperation with Pakistan, aimed especially at bolstering security and stability in neighboring Afghanistan. Along with direct Foreign Military Financing for Pakistan totaling \$675 million for FY2002-FY2005, Congress has allocated additional defense spending to reimburse Pakistan for its support of U.S. counterterrorism operations (reimbursement totals \$1.32 billion for July 2003 - December 2004). In July 2002, the United States began allowing commercial sales that enabled Pakistan to refurbish at least part of its fleet of American-made F-16 fighter aircraft. Major Foreign Military Sales arrangements since that time have been worth up to \$1.82 billion. *The 9/11 Commission Report* calls for provision of long-term and comprehensive support to the government of President Musharraf so long as that government remains committed to combating extremism and to a policy of "enlightened moderation." The Intelligence Reform and Terrorism Prevention Act of 2004 (S. 2845/P.L. 108-458), passed at the end of the 108th Congress, requires the President to report to Congress on U.S. efforts to support Pakistan. With passage of H.R. 4818 (the Foreign Operations FY2005 Appropriations Act), Congress approved the first of five annual appropriations of at least \$600 million for Pakistan as called for by the President (additional funds for development assistance, law enforcement, and other programs bring the FY2005 total to \$700 million). The 109th Congress will likely continue congressional oversight of U.S.-Pakistan relations, especially in the areas of counterterrorism/defense cooperation and arms sales, WMD proliferation, democratization and human rights protection, counternarcotics, and development assistance.

CRS Issue Brief IB94041, *Pakistan-U.S. Relations*, by K. Alan Kronstadt.

CRS Report RL32259, *Terrorism in South Asia*, by K. Alan Kronstadt and Bruce Vaughn.

CRS Report RL31624, *Pakistan-U.S. Anti-Terrorism Cooperation*, by K. Alan Kronstadt.

Saudi Arabia. [Alfred B. Prados, Specialist in Middle East Affairs (7-7626)] The September 11, 2001 attacks kindled criticisms within the United States of alleged official Saudi involvement in terrorism, or of Saudi laxity in acting against terrorist groups. A high percentage of the September 11 hijackers (15 out of 19) were Saudi nationals. Some maintain that Saudi domestic and foreign policies have created a climate that may have contributed to terrorist acts by Islamic radicals. In particular, critics of Saudi policies have cited reports that the Saudi government has permitted or encouraged fundraising in Saudi Arabia by charitable Islamic groups and foundations linked to Al Qaeda. Saudi officials maintain that they are working closely with the United States to combat terrorism, which they say is aimed even more at the Saudi regime than at the United States. The U.S. State Department has noted enhanced Saudi efforts to pursue terrorists since mid-2003, particularly through enactment of measures to ban money laundering and control charitable contributions. The *9/11 Commission Report*, released in July 2004, described Saudi Arabia as having been “a problematic ally in combating Islamic extremism,” while noting that Saudi cooperation in opposing terrorism has improved. The Intelligence Reform and Terrorism Prevention Act (S. 2845/P.L.108-458), passed at the end of the 108th Congress, would require the President to submit to Congress a strategy for U.S.-Saudi collaboration. Regarding other legislation, H.R. 4818, the Foreign Operations Appropriations Act for FY2005 (included in the Consolidated Appropriations Act for FY2005 [P.L. 108-447]) imposes a ban on U.S. assistance to Saudi Arabia, but provides for a presidential waiver. In this connection, Saudi Arabia receives a small amount of U.S. grant aid (\$25,000 per year) under the International Military Education and Training (IMET) program; Saudis have paid for all equipment they have acquired from the United States for many years. The U.S.-Saudi relationship and Saudi role in the war on terrorism are likely to remain prominent topics of concern to the 109th Congress.

CRS Issue Brief IB93113, *Saudi Arabia: Current Issues and U.S. Relations*, by Alfred Prados.

CRS Report RS21913, *Saudi Arabia: Reform and U.S. Policy*, by Jeremy Sharp.

CRS Report RL32499, *Saudi Arabia: Terrorist Financing Issues*, by Alfred Prados and Christopher M. Blanchard.

Possible Flashpoints

The Korean Peninsula. [Larry Nicksch, Specialist in Asian Affairs (7-7680)] The Bush Administration faces a daunting task in 2005 in turning the six-party talks on North Korea’s nuclear weapons program toward the U.S. goal of verifiable dismantlement of the program. There reportedly is a general assumption within the U.S. intelligence community that, within the past year, North Korea has reprocessed 8,000 nuclear fuel rods into weapons-grade plutonium and may have produced up to six to eight atomic bombs. The talks have been stalemated since they began in April 2003. Since July 2004, North Korea has refused to attend a plenary session of the talks, setting forth demands for U.S. concessions under the heading of U.S. abandonment of its “hostile policies” toward North Korea. While the focus of

current diplomacy is on arranging another plenary session, the stalemate in the talks has more serious factors and ramifications. Most serious, North Korea's strategy since late July 2004 has weakened the Bush Administration's proposal of June 23, 2004, as a basis for future negotiations. That proposal called for a short freeze of North Korea's nuclear program followed by a relatively rapid dismantlement of the program. North Korea initially would receive oil from South Korea and Japan and a provisional security guarantee from the participants in the talks, including the United States. Once dismantlement was in process, the United States would negotiate with North Korea over reciprocal measures such as energy assistance to North Korea and removal of North Korea from the U.S. list of terrorism-supporting countries. North Korea denounced the proposal as a "sham proposal" in a Foreign Ministry statement of July 24, 2004. Pyongyang may have been encouraged to adopt a "kill strategy" toward the proposal by the lack of endorsements or support for the proposal by the other participants in the six-party talks — China, South Korea, Japan, and Russia. By mid-2004, too, North Korea had established its "reward for freeze" proposal (emphasizing a limited freeze of its plutonium program rather than dismantlement) in a strong position in the six-party talks. China, Russia, and South Korea were expressing support for elements of the proposal, and China and Russia openly expressed skepticism toward the Bush Administration's claim that North Korea operated a secret uranium enrichment program to produce uranium-based atomic weapons.

North Korea's successes in the six-party talks are due to a multi-faceted strategy, which Pyongyang adopted after the August 2003 plenary session. This strategy has been aimed at influencing the other governments participating in the talks and isolating the United States, including threats to abandon talks and vociferously denying the U.S. claim of a secret uranium enrichment (HEU) program. In contrast, the Bush Administration's approach in the talks has been relatively passive, based on an assumption operating in 2003 that North Korea would alienate the other governments through provocative behavior. The Administration did not issue a detailed proposal until June 23, 2004, relying instead on a demand that North Korea agree to "complete, verifiable, irreversible dismantlement" (CVID) of its nuclear programs before the United States would negotiate. Even after it issued the June 23 proposal, the Administration launched no diplomatic and public diplomacy campaign to promote it. The Administration also issued no comprehensive critique of the "reward for freeze" proposal and has not blunted the influence of North Korea's denial strategy regarding HEU on China, Russia, and South Korea. The Administration has claimed publicly that the other participating governments support the U.S. objective of CVID, and it frequently praises China's role. However, off-the-record statements by Administration officials and reportedly a National Security Council memorandum of June 2004 express dissatisfaction with the state of the talks, including China's role.

The Administration appears to face two basic issues in the six-party talks. One is how to move a U.S. agenda into a dominant position in the talks, including how to respond to recent Chinese and South Korean criticisms that the United States should present a more flexible and detailed settlement proposal. A second issue would be the type of U.S. response if the talks remain stalemated. Here, the options appear to be between allowing the talks and the North Korean nuclear issue to proceed indefinitely without resolution — an attempt to contain North Korea's use

of nuclear weapons and materials — or taking direct actions to pressure North Korea to accept dismantlement, including sanctions and/or interdiction of North Korean sea and air traffic.

CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry Niksch.

CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations: Issues for Congress*, by Larry Niksch.

Iran. [Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612)]

The Bush Administration has pursued several avenues to attempt to contain the potential strategic threat posed by Iran, at times pursuing limited engagement with Iran and at other times expressing support for efforts to change its regime. Some experts believe a potential crisis is looming over Iran's nuclear program, and, despite past differences between the United States and Europe over whether to engage or punish Iran, the Bush Administration is working with several allies and other countries to try to head off a nuclear breakout by Iran. The Bush Administration has said it is skeptical of a November 15, 2004 agreement between Iran and France, Germany, and Britain for Iran to suspend enrichment of uranium, pending a broader deal to permanently curb Iran's nuclear program. U.S. skepticism grew after a November 17, 2004 press report provided information with regard to revelations by an Iranian opposition group that Iran has additional nuclear sites not previously declared to the International Atomic Energy Agency (IAEA). Virtually simultaneous with the opposition allegations, Secretary of State Powell cited intelligence information that Iran is working to develop missiles suitable for carrying nuclear warheads. U.S. sanctions currently in effect ban or strictly limit U.S. trade, aid, and investment in Iran and penalize foreign firms that invest in Iran's energy sector, but unilateral U.S. sanctions do not appear to have significantly slowed Iran's WMD programs to date. Some advocate military action against Iran's nuclear infrastructure, but others believe that a combination of diplomatic and economic rewards and punishment is the only viable option on the nuclear issue.

Other major U.S. concerns include Iran's policy in the Near East region, particularly Iran's material support to groups that use violence against the U.S.-led Middle East peace process, including Hizballah in Lebanon and the Palestinian groups Hamas and Palestinian Islamic Jihad. Some senior Al Qaeda activists are in Iran as well, although Iran claims they are "in custody" and will be tried, and the 9/11 Commission has found that some officials in Iran might have facilitated or at least tolerated travel through Iran by Al Qaeda operatives. Iran reportedly is providing funding and political support to some armed Shiite Islamic factions there, according to press reports.

Iran's human rights practices and strict limits on democracy have been consistently and harshly criticized by official U.S. reports, particularly Iran's suppression of religious and ethnic minorities. However, Iran does hold elections for some positions, including that of president, suggesting that there might be benefits to engaging Iranian officials. According to this view, new sanctions or military action could harden Iran's positions without necessarily easing the potential threat posed by Iran. Others believe that there will be little progress on democracy or on

the strategic and foreign policy threat posed by Iran unless and until the regime ruling Iran is removed. Several bills recommending regime change in Iran and providing funds for pro-democracy groups were introduced in the 108th Congress, but did not receive floor action. Some Members have said they will reintroduce similar legislation. H.R. 4818, the FY2005 Consolidated Appropriations Act (P.L. 108-447), provides \$3 million for U.S. efforts to support Iranian pro-democracy activists. Some believe that internal opposition groups are not capable, even if given substantial U.S. aid, of accomplishing regime change. Many believe that a U.S. military effort to overthrow Tehran's regime is unrealistic in light of the commitment of U.S. forces in Iraq and elsewhere and in the face of likely opposition to such a move by most Iranians. The 109th Congress is likely to hold hearings on U.S. options to curb Iran's nuclear program and to curtail other objectionable aspects of Iranian policy.

CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*, by Sharon Squassoni.

CRS Report RS21548, *Iran's Ballistic Missile Capabilities*, by Andrew Feickert.

Israeli-Palestinian Peace Efforts. [Carol Migdalovitz, Specialist in Middle Eastern Affairs (7-2667)] President Bush has announced that the effort to forge peace in the Middle East will be the highest foreign policy priority of his second term. The President has said that the death of Palestinian Authority (PA) Chairman Yasir Arafat on November 11, 2004 could create an opening to renew the stalemated peace process. In a joint appearance with British Prime Minister Tony Blair on November 14, the President declared his willingness to use the next four years to “spend the capital of the United States” on establishing a democratic Palestinian state living in peace with Israel.

President Bush is the first U.S. President to declare that a Palestinian state is part of his vision for the future. To implement this vision and achieve a settlement by 2005, the State Department, the United Nations, the European Union, and Russia formulated the Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict. Yet neither Israel nor the Palestinians took steps required by the Roadmap. Israeli Prime Minister Sharon and the Bush Administration refused to deal with Arafat, whom they identified with terrorism and as an obstacle to peace. Instead, in December 2003, Sharon announced a unilateral plan to disengage from the Palestinians by withdrawing from the Gaza Strip and four settlements in the West Bank in 2005. On April 14, 2004, President Bush welcomed the plan and reiterated his commitment to the Roadmap. He stated that it was unrealistic to expect negotiations to lead to a return to the armistice lines of 1949, apparently accepting that Israel would annex major West Bank settlements. He also declared that a solution to the Palestinian refugee issue would be found by settling refugees in a Palestinian state, rather than in Israel, thus rejecting a Palestinian “right of return.” Palestinian presidential elections have been scheduled for January 9, 2005, and the impetus for Israeli unilateralism may have changed. Sharon has indicated his willingness to discuss disengagement and other matters with the new Palestinian

leaders, while President Bush also has said that he is willing to work with a new Palestinian leadership that fights terror and seeks democratic reform.

Congress supports Israel and its efforts to achieve peace with its neighbors. Congress supports Israel with generous foreign aid — \$360 million in Economic Support Funds, \$2.2 million in Foreign Military Financing for FY2005, and an as-yet undetermined tranche of the \$9 billion in loan guarantees approved in FY2003. It prohibits funding for the PA unless the President certifies that it is in the U.S. national interest, and conditions aid for a Palestinian state on its leaders rejecting terrorism, holding democratic elections, and cooperating with Israel on security. On December 8, President Bush exercised his authority to waive prohibitions on aid to the Palestinian Authority to allow it to receive \$20 million in direct aid. Separately, the Administration is providing \$2.5 million in technical assistance for the January 9 election and \$1 million to fund international election observers. The 109th Congress will likely scrutinize aid for the Palestinians and encourage an end to violence and a return to the peace process. Congress has supported Israeli sovereignty over Jerusalem and moving the U.S. Embassy from Tel Aviv to Jerusalem.

CRS Issue Brief IB91137, *The Middle East Peace Talks*, by Carol Migdalovitz.

CRS Issue Brief IB92052, *Palestinians and Middle East Peace*, by Clyde Mark.

CRS Issue Brief IB85066, *Israel: U.S. Foreign Assistance*, by Clyde Mark.

Proliferation and Weapons of Mass Destruction [Amy Woolf, Specialist in National Defense, (7-2379)]

The United States has long sought to slow or stop the proliferation of nuclear, chemical, and biological weapons (known as weapons of mass destruction — WMD). These policies have been codified in international treaties and agreements, incorporated into bilateral initiatives between the United States and other nations, and built into unilateral U.S. responses to activities undertaken in other nations. They can include diplomatic initiatives to discourage proliferation; economic policies, such as export controls, sanctions, incentives, or assistance to nations where proliferation might occur; and, in some cases, military action to counteract proliferation. The Bush Administration has continued to support many long-standing policies designed to preclude proliferation to a wide range of nations across the globe. In the wake of September 11, 2001, it has also specifically focused on new policies and programs that seek to ensure that rogue nations or terrorist groups do not acquire WMD.

The 109th Congress will authorize and appropriate funding, and conduct oversight for U.S. programs that are designed to address the risks and consequences of WMD proliferation. Many of these programs address U.S. concerns about proliferation of weapons or materials *from* specific countries, such as Russia, Pakistan, North Korea, and China. For example, the United States provides about \$1 billion per year in assistance to Russia and the other former states of the Soviet Union to help them secure nuclear, chemical, and biological weapons, materials, and

knowledge that might leak out to other nations. The Bush Administration has also introduced the Proliferation Security Initiative (PSI), under which the United States and more than a dozen other nations have agreed to disrupt trade in WMD technologies by interdicting vessels, aircraft or other modes of transport in their territory or territorial waters when suspected of carrying WMD-related cargo. When reviewing these programs, Congress may address questions about the total amount of money allocated to these efforts, the amounts allocated to specific projects and programs, and the amounts that might be allocated to similar programs outside the former Soviet Union. Congress may also review the degree of international cooperation and whether the programs are meeting their stated objectives in a timely manner.

The 109th Congress will also likely face issues related to the proliferation of nuclear and other capabilities to nations such as Iran and North Korea. Iran, in an agreement with the International Atomic Energy Agency, has recently agreed to suspend its uranium enrichment program, and it plans to conduct further negotiations on its nuclear program with Great Britain, France, and Germany. The United States has not joined in these discussions, and does not fully support the approach taken thus far, but has not rejected the process. After breaking off its cooperation with the IAEA, North Korea reprocessed its nuclear fuel rods, providing it with enough plutonium, analysts believe, for several nuclear weapons. The United States is meeting with China, Japan, Russia, and South Korea, in six-party talks with North Korea in an effort to convince that nation to give up its nuclear weapons program. Congress will not only review the progress of these discussions, but it may also address questions about possible alternative approaches that might help contain or reverse proliferation in these nations.

CRS Report RL30699, *Nuclear, Biological, and Chemical Weapons and Missiles: The Current Situation and Trends*, by Sharon Squassoni.

CRS Report RL31559, *Proliferation Control Regimes: Background and Status*, by Sharon Squassoni.

CRS Report RL32115, *Missile Proliferation and the Strategic Balance in South Asia*, by Andrew Feickert and K. Alan Kronstadt.

CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley Kan.

Intelligence Reform

Reorganization of the Intelligence Community. [Alfred Cumming, Specialist in Intelligence and National Security (7-7739)] After months of negotiation over how to overhaul the U.S. Intelligence Community (IC) in the wake of the terrorist attacks of September 11, 2001, the U.S. Senate and the House of Representatives agreed on a package of intelligence reforms at the end of the 108th Congress known as the Intelligence Reform and Terrorism Prevention Act of 2004, S. 2845/P.L. 108-458. In reaching an eleventh-hour consensus, reform advocates were able to head off the prospect of having to re-start their efforts at the beginning in the 109th Congress.

Efforts to reform the IC initially were sparked by the recommendations of the 9/11 Commission (officially known as the *National Commission on Terrorist Attacks Upon the United States*), which concluded that the current Director of Central Intelligence lacked critical authorities that, in the Commission's view, any agency head or chief executive officer must have to effectively carry out his or her duties. Efforts to reach final legislative agreement between the two chambers almost foundered in large part over divergent views as to just how much budgetary and personnel authority to accord a newly established Director of National Intelligence (DNI), who would oversee the IC's 15 separate intelligence agencies. The Senate advocated a DNI with stronger authorities than did the House. Several key House members opposed the stronger DNI authorities because of their concern that such broader authorities could weaken the control of the Department of Defense over essential intelligence collection and analysis deemed critical to supporting the military, particularly during times of war. In the end, agreement turned on the acceptance of compromise language calling on the President to issue guidelines that would ensure the effective implementation and execution of the DNI's authorities in a manner that respects and does not abrogate the statutory responsibilities of various U.S. departments. The 109th Congress will face the challenge of exercising oversight over the implementation of intelligence reform.

Oversight Issues. [Richard Best, Jr., Specialist in National Defense (7-7607)] Members of Congress have expressed continuing concern with the organization and work of the Intelligence Community. The conclusions of the 9/11 Commission that there are serious problems with the organization of the Community and with human intelligence (humint) collection led to a widespread determination to support changes in the intelligence effort. The House Intelligence Committee has been especially critical of the CIA, claiming in 2004 that the agency reflected “a dysfunctional denial of any need for corrective action.” There are other concerns regarding the quality of intelligence estimates in view of a failure to find Iraqi weapons of mass destruction that the Community had indicated were undoubtedly present. Director of Central Intelligence Porter Goss has undertaken extensive management changes in the CIA and Congress may seek to evaluate the effectiveness of his initiatives. The Intelligence Community deploys a wide variety of expensive technical sensors — satellites, manned and unmanned aircraft, and ground installations — to collect information about a variety of targets. Taken together, these systems cost billions of dollars annually and there is a concern that the Intelligence Community and the Defense Department have not developed an optimal mix of systems, and that there may be waste and duplication of effort.

CRS Issue Brief IB10012, *Intelligence Issues for Congress* by Richard A. Best, Jr.

CRS Report RL32506, *The Proposed Authorities of a National Intelligence Director: Issues for Congress and Side-by-Side Comparison of S. 2845, H.R. 10, and Current Law* by Alfred Cumming.

Foreign Affairs

Global Issues Overview

[Francis T. Miko, Specialist in International Relations (7-7670)]

Since the terrorist attacks of September 11, 2001, the Administration and Congress have increased spending substantially on foreign policy programs. In the face of rising budget deficits, significant increases in foreign policy budgets are not expected for FY2006. However, the 109th Congress may address steps to strengthen the State Department's capabilities in public diplomacy, as well as specific programs in order to improve America's image abroad, including cultural exchanges, education programs, international broadcasting, and democracy initiatives, particularly targeted to Muslim countries.

Congress is likely to consider foreign assistance programs designed to address some of the underlying causes of hostility to the West and support for terrorism, such as regional conflicts, brutal and corrupt regimes, failing states, and extreme poverty in many parts of the world. Congress may address weaknesses in U.S. capabilities to support stabilization and reconstruction programs in post-conflict situations. These considerations may also be reflected in the debate over the use of economic sanctions as a foreign policy tool. Congress will likely review and need to balance U.S. foreign aid priorities as it considers funding levels for major initiatives. Considerable resources are likely to be requested for the Millennium Challenge Account to help poorer countries which meet specific performance criteria. Similarly, the Administration and Congress have emphasized programs to fight HIV/AIDS and other communicable diseases. Sustaining these levels while providing for other contingencies and initiatives might be challenging.

The 109th Congress is likely to continue to pay attention to the policies and operations of international organizations. Congress has taken the lead in pressing for U.N. reform and accountability. Members have been outspoken in their disappointment over recent U.N. performance in several international crises, and alleged fraud and waste in some U.N. programs. Some have even suggested that the United States should reassess the utility of its continued participation in the body. Congress has demonstrated on-going concern over international organized crime through its legislative and oversight activities, especially drug trafficking, money laundering, and human trafficking. These problems are likely to continue to get attention in hearings and legislation.

Foreign Affairs Resources and Policy. [Larry Nowels, Specialist in Foreign Affairs (7-7645) and Susan Epstein, Specialist in Foreign Policy and Trade (7-6678)] Over the past decade, and especially since the terrorist attacks of September 11, the President and the Congress have supported significantly higher funding levels in support of U.S. foreign policy programs. The international affairs budget has grown from \$18.7 billion in FY1996 to a ten-year high (excluding Iraq reconstruction funds) in FY2005 of \$29.8 billion. While fighting the global war on terrorism has been the top foreign policy budget priority since September 11, the Bush Administration has also launched a five-year, \$15 billion program to combat international HIV/AIDS, established a new, innovative foreign aid program — the

Millennium Challenge Account — that is promised to grow to \$5 billion by 2006, added 1,100 State Department personnel under the Diplomatic Readiness Initiative, and secured American embassies and other facilities around the world.

Nevertheless, with rising budget deficits reaching over \$400 billion in FY2004, efforts to slow or reduce discretionary spending are expected in the near-term. The White House will reportedly submit an FY2006 budget proposal that will hold spending, except for Defense and Homeland Security, to 1% growth. For the first time during the Bush Administration, Congress cut the President's total foreign policy budget request, trimming the \$31.6 billion proposal by nearly 6%. At the same time, the combination of previously announced spending commitments for HIV/AIDS and other foreign aid programs, plus possible new initiatives regarding debt reduction, reconstruction and stabilization capacity, and other initiatives will make the foreign policy budget debate especially difficult in 2005.

Congress will debate the broad outlines of the FY2006 resources, including amounts for foreign affairs programs, during the early months of the 109th Congress. After establishing targets for foreign policy, defense, and domestic spending in the Budget Resolution, Congress will turn its attention to appropriation bills, where details for specific international affairs spending will be decided. Roughly 95% of the foreign policy budget is included in two spending measures: Foreign Operations and Commerce, Justice, State and the Judiciary.

CRS Report RL32311, *Appropriations for FY2005: Foreign Operations, Export Financing, and Related Programs*, by Larry Nowels.

CRS Report RL32309, *Appropriations for FY2005: Commerce, Justice, State, the Judiciary, and Related Programs*, by Susan Epstein and Ian Fergusson.

Foreign Aid, Development and the Millennium Challenge Account.

[Larry Nowels, Specialist in Foreign Affairs (7-7645)] The significance of foreign aid as a tool of U.S. foreign policy has been elevated since the terrorist attacks of September 11 showed that failing states could be exploited by terrorist groups as safe havens. In September 2002, the Administration established global development as the third “pillar” of its National Security Strategy, along with defense and diplomacy. Since 9/11, the United States has allocated over \$100 billion for foreign assistance, nearly half of which supports the global war on terrorism and reconstruction efforts in Iraq and Afghanistan.

During the same period, President Bush launched two major additional foreign assistance initiatives. The President's Emergency Plan for AIDS Relief (PEPFAR) pledged \$15 billion over five years (2004-2008) to combat the HIV/AIDS epidemic in the developing world. In FY2004, the United States created an innovative foreign aid program — the Millennium Challenge Account — that extends sizable aid grants to a few, low-income nations that have been determined, through a competitive process, to have the strongest policy reform records and where new investments are most likely to achieve their intended development results.

Finding the resources to sustain these growing aid pledges, plus responding to possible new initiatives and unforeseen foreign policy contingencies, may be the

greatest foreign assistance challenge faced by lawmakers in the 109th Congress. The Administration has discussed plans to expand democracy programs in the greater Middle East and to seek a “quick response” fund to support the State Department’s new Coordinator for Reconstruction and Stabilization. Aid donors are expected to consider a substantial expansion of existing debt relief programs for heavily indebted poor countries, an initiative that President Bush indicated in 2004 he would support. Unanticipated humanitarian and security emergencies, such as that in Darfur, Sudan, may also add pressure to an already extremely tight budget environment. Congress considers foreign aid spending and policy issues largely in the Foreign Operations appropriations bill. During the FY2005 debate, lawmakers reduced the President’s foreign assistance budget (a subset of the larger foreign policy budget) request by \$1.7 billion, or nearly 8%, the first time in three years such cuts have occurred. Efforts to prioritize, focus resources, and find savings will likely characterize the foreign aid debate early in the 109th Congress.

CRS Report 98-916, *Foreign Aid: An Introductory Overview of U.S. Programs and Policy*, by Curt Tarnoff and Larry Nowels.

CRS Report RL32427, *The Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative*, by Larry Nowels.

HIV/AIDS and International Health Issues. [Tiaji Salaam, Analyst in Foreign Affairs (7-7677)] Global health has become a major component of U.S. foreign aid, and is expected to be a major priority for the 109th Congress. There is growing concern among policy makers that health could significantly impact economic growth, national security, and political stability in many parts of the world. According to the Joint United Nations Programme on HIV/AIDS (UNAIDS), there are about 40 million people living with HIV/AIDS worldwide, with about 5 million of those infected in 2004. Infectious diseases, particularly HIV/AIDS, tuberculosis (TB) and malaria, are taking a significant toll on productivity, profitability, and foreign investment. The CIA has reported that these diseases could reduce GDP by as much as 20% or more by 2010 in some sub-Saharan African countries.

Congressional debate focuses on international HIV/AIDS funding levels; the resurgence of malaria, TB, and other infectious diseases; the decay of international health infrastructure in developing countries; and the challenges of containing disease outbreaks. Although the United States has spent more than any other country on combating HIV/AIDS, some still challenge the United States to increase spending and to revise laws that place restrictions on how funds are spent. Since its inception, the United States has contributed \$1.1 billion to the Global Fund. Congress is expected to appropriate \$437.8 million to the Fund in FY2005, including \$87.8 million not used in FY2004 due to parameters set in the U.S. Leadership Against AIDS, Tuberculosis, and Malaria Act of 2003 (P.L.108-25). The law states that U.S. contributions to the Fund for FY2004 through FY2008 are limited to one-third of contributions actually paid to the Fund. Global contributions did not meet the fiscal requirement. Observers argue that “the one-third requirement” hinders the Fund’s growth.

A large number of countries in sub-Saharan Africa are hampered by inadequate health systems, including shortages of medical personnel. Many countries, already struggling to treat their adult population, are unprepared to treat children, as they lack anti-retroviral treatment (ART) made for children. The Senate and the House passed legislation that focuses on children orphaned and made vulnerable (OVC) by HIV/AIDS in the 108th Congress. Part of the legislation called for these children to receive ART. Although the legislation did not go to conference, there has been significant discussion on this issue in both chambers. It is expected that another bill will be introduced in the 109th session.

The SARS outbreak in 2003 demonstrated that public health systems and the availability of resources to deal with sudden, widespread disease outbreaks were clearly inadequate. It also demonstrated that state responsibility within a globalized world does not end at its borders and that future containment relies on openness and cooperation. The growing global interdependence between domestic health policy and foreign policy creates new challenges in the prevention of and response to infectious diseases and bioterrorism, such as transparency, surge capacity, management of public fear and information disclosure, coordination of national responses, and lack of funding. Finally, acute health issues stemming from conflict and crisis amplify the need to engage other actors, including international human aid providers, development specialists, and the military.

CRS Report RL3143, *AIDS Orphans and Vulnerable Children (OVC): Problems, Responses and Issues for Congress*, by Tiaji Salaam.

CRS Report RL31712, *The Global Fund to Fight AIDS, Tuberculosis and Malaria: Background and Current Issues*, by Raymond W. Copson and Tiaji Salaam.

CRS Report RS21181, *HIV/AIDS International Programs: Appropriations, FY2003-FY2005*, by Raymond W. Copson.

CRS Issue Brief IB100500, *AIDS in Africa*, by Raymond W. Copson.

CRS Report RL32001, *AIDS in the Caribbean and Central America*, by Mark P. Sullivan.

United Nations Reform. [Marjorie Ann Browne, Specialist in International Relations (7-7695)] United Nations reform, as variously defined, has drawn the attention of many in Congress and the executive branch as well as in other U.N. member governments. In the past, congressional views and expectations on the need for United Nations reform have resulted in significant arrearage in U.S. contributions, especially to U.N. regular budget and peacekeeping accounts, and led to Congress's specifying conditions to be met before the release of U.S. funds appropriated to finance these contributions or arrearages.

As the 109th Congress convenes, several issues have arisen to focus congressional attention on the United Nations, including its reform. These issues, which may affect the credibility of the organization and its top officials, include allegations related to the U.N. oil-for-food program and associated investigations; allegations of sexual exploitation and abuse by members of U.N. peacekeeping forces

and missions; the effectiveness and transparency of the U.N. administrative apparatus to investigate wrong-doing, especially by mid- and top-level officials; and the capacity of the United Nations to provide security for its activities around the world, as evidenced by what some have viewed as the slow response of the U.N. Secretary-General in authorizing U.N. staff presence in Iraq in the wake of the August 2003 bombing of the U.N. Office in Baghdad.

Congress will also have before it, possibly by summer, a report of a Task Force on the United Nations, created by the U.S. Institute of Peace and requested by the House and Senate Appropriations Committees in the FY2005 Consolidated Appropriations Act. This task force of 12 experts is to “study the United Nations’ efforts to meet the goals of its Charter.” Another report expected to attract review and study in Congress is that of the Secretary-General’s High-level Panel on Threats, Challenges and Change, issued on December 2, 2004. This report recognizes failures and shortcomings in the organization and offers far-ranging recommendations, many of which require the attention and commitment of U.N. Member States to implement.

CRS Issue Brief IB86116, *U.N. System Funding: Congressional Issues*, by Vita Bite.

CRS Issue Brief IB90103, *United Nations Peacekeeping: Issues for Congress*, by Marjorie Ann Browne.

CRS Report RL30472, *Iraq: Oil-for-Food Program, International Sanctions, and Illicit Trade*, by Kenneth Katzman.

Peacekeeping, Stabilization, and Reconstruction: New Tools. [Nina M. Serafino, Specialist in Foreign Affairs (7-7667)] The perception, underscored by the *9/11 Commission Report*, that international terrorism will exploit weak, unstable states has been a major factor in convincing many policymakers of the need to strengthen U.S. and international capabilities to foster security, good governance, and economic development in conflict and post-conflict situations. To that end, the second session of the 108th Congress supported, albeit with considerable reservation, two Bush Administration initiatives to bolster U.S. and international capabilities: the new State Department Office of the Coordinator for Reconstruction and Stabilization (S/CRS) and the five-year (FY2005-FY2009) Global Peace Operations Initiative (GPOI). The Administration may well ask the 109th Congress to support and fund proposals to enhance “stabilization and reconstruction” (S&R) civilian capabilities. It may also ask Congress to reconsider its decision to deny funding for a Conflict Response Fund to support S/CRS activities. It is expected to ask the 109th Congress for continued GPOI funding for FY2006. The Administration may also ask the 109th Congress to support proposals to prevent conflicts, as opinion grows that appropriate policies to prevent conflicts may be more cost-effective than coping with their aftermath.

Despite President Bush’s initial aversion to U.S. and U.N. “peacekeeping,” since September 11, 2001, his Administration has sought to develop and improve U.S. and international capabilities to perform S&R operations to address the problems of failed states, as well as to develop effective strategies for prevention. (The term “stabilization and reconstruction” lacks a strict definition, but is usually understood to encompass those kinds of tasks and missions to promote security and

encourage stable and democratic governance following interventions that in the past were loosely labeled “peacekeeping.”) With a recognition that many stabilization and reconstruction tasks are often better performed by civilians, in mid-2004 the Secretary of State created S/CRS to monitor states in crisis and to plan and coordinate civilian efforts to deal with such states. That office was similar to the State Department office earlier proposed by Senators Lugar and Biden in the Stabilization and Reconstruction Civilian Management Act of 2004 (S. 2127). Congress endorsed S/CRS in the FY2005 Consolidated Appropriations Act (H.R.4818, Division D, Section 480). The S/CRS office has also been charged with developing plans to enhance civilian capabilities for S&R missions.

Congressional defense committees initially resisted funding the Bush Administration’s \$661 million GPOI to train some 75,000 foreign military troops, 60% of them from Africa, in peacekeeping skills over five years and to support an Italian-run constabulary (police trained with military skills) training center on the grounds that it would divert money from more pressing military needs. When the Administration insisted, Congress provided \$100 million for GPOI in H.R. 4818 (Division J, Section 117): \$80 million from DOD and the remainder from Department of State appropriations. Some \$20 million in a Conflict Response Fund to support FY2005 activities and initiatives by S/CRS was provided by the Senate in its version of the FY2005 Foreign Operations Appropriations Act (S. 2812), but deleted in the conference agreement.

CRS Issue Brief IB94040, *Peacekeeping and Related Stability Operations: Issues of U.S. Military Involvement*, by Nina M. Serafino.

CRS Issue Brief IB90103, *United Nations Peacekeeping: Issues for Congress*, by Marjorie Ann Browne.

CRS Report RL32141, *Funding for Military and Peacekeeping Operations: Recent History and Precedents*, by Jeffrey Chamberlin.

CRS Report RL32321, *Policing in Peacekeeping and Related Stability Operations: Problems and Proposed Solutions*, by Nina M. Serafino.

Economic Sanctions. [Diane E. Rennack, Specialist in Foreign Policy Legislation (7-7608)] The United States maintains economic sanctions that restrict most transactions with those countries it has identified as supporters of international terrorism: Cuba, Iran, Libya, North Korea, Sudan, and Syria. The United States maintains an arms embargo on Burma, the Democratic Republic of Congo, Haiti, Iraq, Liberia, People’s Republic of China, Rwanda, Somalia, and the aforementioned terrorist states. The United States limits foreign aid to about two dozen states or regions and the terrorist states. Finally, the United States maintains economic restrictions on individuals identified as narcotics traffickers, terrorists, those who disrupt the Middle East peace process, those who engage in the proliferation of weapons of mass destruction, and diamond traffickers (when the diamonds have not been subject to a certification process). These individuals and entities number in the hundreds.

The 109th Congress might be called on to determine which is the most exigent issue — terrorism, proliferation of weapons of mass destruction, or human rights and democracy — and shape U.S. law to address that exigency. The President or the State Department reports to Congress annually on human rights (February), drug trafficking (March and September), cooperation with U.S. anti-terrorism efforts (May), religious freedom (May), and human trafficking (June); each report affords the Congress an opportunity to oversee foreign policy activities of the Administration. Country analysis provided in each report could be the impetus for imposing sanctions on countries with objectionable practices.

Other sanctions-related events that might garner congressional attention early in the 109th Congress, include an upcoming Presidential report to Congress on the use of U.S. foreign assistance for education in Pakistan; United Nation negotiations relating to Sudan — its civil war and the crisis in Darfur, which has been characterized by Secretary of State Powell and U.S. Representative to the United Nations, John Danforth, as genocide; Presidential determinations issued in early December that North Korean and Chinese companies have recently engaged in proliferation activities benefitting Iran; a report issued by the International Atomic Energy Agency that credits Iran with promising to freeze its nuclear development program; recent movement toward normalization of relations between the United States and Libya, a country still considered to be a supporter of acts of international terrorism by the Department of State; and the Secretary of State's recent comments on political developments in Ukraine and options for the United States.

CRS Report RL31910, *China: Economic Sanctions*, by Dianne E. Rennack.

CRS Report RL31139, *Cuba: U.S. Restrictions on Travel and Remittances*, by Mark P. Sullivan.

CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

CRS Report RL32604, *Libya: Legislative Basis for U.S. Economic Sanctions*, by Dianne E. Rennack.

CRS Report RL31502, *Nuclear, Biological, Chemical, and Missile Proliferation Sanctions: Selected Current Law*, by Dianne E. Rennack.

CRS Report RL32606, *Sudan: Economic Sanctions*, by Dianne E. Rennack.

Africa

Overview. [Nicolas Cook, Specialist in African Affairs (7-0429)] Policy priorities of the 109th Congress with regard to Africa are likely to mirror and extend those of the 108th Congress. These include decisions on the level and programmatic focus of U.S. aid in support of socio-economic development, healthcare, HIV/AIDS efforts, food aid, democratization, and trade. With respect to these issues, Congress may consider the contrasting policy and operational roles of the U.S. Agency for International Development (USAID) and the Millennium Challenge Corporation, which Congress funded below the level requested by the Administration. A possibly

enhanced role for Africa in diversifying U.S. oil supplies may draw increasing congressional attention. Congress may also be called on to consider a possible U.S.-Southern African Customs Union free trade agreement.

U.S. efforts to maintain peace and security in Africa are likely to remain key policy foci, notably in Sudan and Liberia. The 108th Congress appropriated \$200 million for humanitarian aid and reconstruction and \$250 million for peacekeeping in Liberia in FY2004. U.S. funding for Liberia may rise significantly, by regional standards, if provisional U.S. plans to retrain the Liberian military proceed. Congress is likely to continue to closely monitor levels of U.S. support for current U.N. peacekeeping operations in Burundi, Cote d'Ivoire, the Democratic Republic of the Congo, Ethiopia/Eritrea, Sierra Leone, and Western Sahara. The United States has actively helped to mediate or end conflicts in these countries, but Congress may consider seeking changes in the structure or level of U.S. support for those operations that fail to produce intended outcomes.

U.S. counterterrorism (CT) efforts are key facets of U.S. engagement in sub-Saharan Africa and may expand. The United States funds two major counterterrorism initiatives in Africa — the East Africa Counterterrorism Initiative (EACTI) and the Pan Sahel Initiative (PSI). The Administration is considering a possible expansion of PSI, which Congress may be called upon to fund. Dubbed the Trans-Sahel Counter Terrorist Initiative, it would cover the whole pan-Sahel region and encourage further regional CT cooperation. Close congressional monitoring of the activities of the Combined Joint Task Force-Horn of Africa, a U.S. regional counterterrorism military operation based in Djibouti, is probable. U.S. efforts to promote regional peace and stability in Africa through diplomacy and mediation, and through U.S. military training programs, such as the Africa Contingency Operations Training Assistance, will likely draw the continuing attention of Congress, which may also consider prospects for rebuilding failed states, like Somalia. The emerging role of the new State Department Office of the Coordinator for Reconstruction and Stabilization may become important in this regard.

Sudan. [Ted Dagne, Specialist in International Relations (7-7646)] Congress will likely continue to monitor and respond to the ongoing crisis in Darfur in western Sudan that has led to a major humanitarian disaster, with an estimated 1.6 million people displaced and more than 200,000 refugees forced into neighboring Chad. Some observers estimate that up to 70,000 people have been killed as a result of the conflict from 2003 to the present, though reliable casualty data are lacking. The government of Sudan has denied or severely restricted access to international relief officials in Darfur, although aid is now flowing to the area. Violence against civilians, however, continues unabated, according to U.N. officials. USAID officials assert that up to 320,000 persons could die by the end of 2004, irrespective of the international response. In August 2004, the African Union deployed 305 troops from Nigeria and Rwanda to protect an estimated 80 cease-fire monitors in Darfur. The mandate of these troops is to monitor a cease-fire agreement reached in April 2004 between the government of Sudan and two rebel groups — the Sudan Liberation Army and the Justice and Equality Movement. In late September 2004, the government of Sudan agreed to accept 3,500 more troops, although the mandate of the African Union force does not allow it to protect civilians.

In September 2004, the Bush Administration declared the atrocities in Darfur genocide. In a testimony before the Senate Foreign Relations Committee, Secretary of State Powell stated that “genocide has been committed in Darfur and that the Government of Sudan and the Janjaweed bear responsibility.” In July 2004, the House and Senate declared the atrocities in Darfur genocide. On October 7, 2004, the House passed H.R. 5061, the Comprehensive Peace in Sudan Act of 2004, and the Senate passed similar legislation (S. 2781) in September 2004. In response to the growing humanitarian crisis in Darfur, Congress approved additional funds for relief purposes. In FY2005, Sudan is expected to receive an estimated \$500 million in humanitarian and development assistance. Meanwhile, Congress remains actively engaged in monitoring the North-South peace negotiations between the Government of Sudan and the Sudan People’s Liberation Movement (SPLM). On November 19, 2004, the Government of Sudan and the SPLM signed a Memorandum of Understanding in Nairobi, Kenya, pledging to finalize a peace agreement by December 31, 2004. The agreement itself was signed at a special U.N. Security Council meeting in Nairobi, Kenya, in December 2004. The Security Council also passed a resolution urging the parties to implement a peace accord and expressing its readiness to consider establishing a U.N. peace support operation.

HIV/AIDS Pandemic. [Raymond Copson, Specialist in International Relations (7-7661)] Sub-Saharan Africa has been far more severely affected by AIDS than any other world region. In July 2004, UNAIDS (the Joint U.N. Programme on HIV/AIDS) reported that in 2003, 25 million people were living with HIV/AIDS in the region, including 3 million newly infected during the year. Africa has about 10% of the world’s population but nearly two-thirds of the global total of infected people. The infection rate among adults averages an estimated 7.5% in Africa, compared with 1.1% worldwide. UNAIDS projects that between 2000 and 2020, 55 million Africans will likely lose their lives to the epidemic. The total level of U.S. funding for international HIV/AIDS programs, and specifically for the Global Fund to Fight AIDS, Tuberculosis, and Malaria, is likely to remain an issue of concern in the 109th Congress. The pace at which the President’s Emergency Plan for AIDS Relief (PEPFAR) is expanding treatment of African AIDS victims with antiretroviral drugs may be examined through hearings. Some may urge that the United States do more to promote the use of inexpensive generic antiretrovirals, while others may advocate continued caution on the issue. Achieving the appropriate balance between treatment and prevention programs, including premarital abstinence programs, may also be considered.

CRS Issue Brief IB95052, *Africa: U.S. Foreign Assistance Issues*, by Raymond Copson.

CRS Issue Brief IB10050, *AIDS in Africa*, by Raymond Copson.

CRS Report RL32643, *Sudan: The Darfur Crisis and the Status of the North-South Negotiations*, by Ted Dagne.

CRS Report RL31947, *The Sudan Peace Process*, by Ted Dagne.

CRS Report RL31247, *Africa and the War on Terrorism*, by Ted Dagne.

Asia

Overview. [Richard Cronin, Specialist in Asian Affairs (7-7678)] The continuing impact of the 9/11 attacks and the antiterrorist campaign has begun to perceptibly influence U.S. security strategy and bilateral relationships with key Asian countries. Some analysts see the beginnings of a tectonic geopolitical shift involving a “rising” China, the marked strengthening of U.S.-Japan alliance cooperation, South Korea’s continuing commitment to engagement rather than pressure on North Korea, and the Pentagon’s plans to transform and realign U.S. forces in the Asia-Pacific region to meet 21st-century challenges. Especially since the war in Iraq, the United States has depended on China to prevent rash actions by a nuclear-armed North Korea, but Beijing’s growing economic ties with South Korea and its high-profile effort to foster close economic and political ties with Southeast Asia tend to underscore unease in Asia about Beijing’s ambitions and U.S. staying power. Some Asia-Pacific friends and allies view the U.S. preoccupation with antiterrorist cooperation with Southeast Asian countries, especially those with a Muslim majority or a large Islamic minority as excessively narrow given China’s growing assertiveness and influence. Pro-independence sentiment in Taiwan may also test the ability of the United States to balance its support for Taiwan with its need for cooperative ties with China. The projected \$157 billion trade deficit with China for 2004, and the continuing willingness of Asian trading partners to buy Treasury bonds and thereby prevent a sharp rise in U.S. interest rates could be a subject of increased congressional attention. Relations with South Asia, especially Pakistan and India, continue to be dominated by the effort against Al Qaeda and the Taliban in Afghanistan and the Pakistan-Afghanistan border region. U.S. success in the antiterrorist campaign in Afghanistan and Pakistan could depend importantly on parallel efforts to moderate India-Pakistan tensions over Kashmir and gain full cooperation from Pakistan to eliminate the illicit nuclear supply network established in the 1990s by its most prominent nuclear scientist, A. Q. Khan.

China and Northeast Asia. [Kerry Dumbaugh, Specialist in Asian Affairs (7-7683)] China’s growing U.S. trade surplus and the economic implications of China’s currency peg to the U.S. dollar, the Six-Party Talks to convince North Korea to halt its nuclear weapons program, and complications involving Taiwan’s political situation are three issues that may prompt congressional action early in the 109th Congress. China, one of the fastest growing markets for U.S. exports, has also been one of the fastest growing sources for U.S. imports, producing large and increasing trade deficits (\$124 billion in 2003). While low-cost imports from China have benefitted U.S. consumers and some firms using Chinese components, they have put competitive pressures on other U.S. manufacturing industries. The 109th Congress will likely focus on efforts to boost U.S. exports to China and respond to Chinese trade practices deemed “unfair” or harmful to U.S. firms and workers, such as its currency peg, industry subsidies, possible dumping, and poor labor practices. Members may also seek to address China’s rapid economic integration and pursuit of free trade agreements with East Asian countries. Additionally, China’s rapidly growing demand for energy may lead to further price spikes, market pressures, and other issues affecting U.S. energy supplies that may demand congressional attention.

In Taiwan, President Chen Shui-bian was sufficiently assertive late in 2004 in rebuffing China’s claims of sovereignty and insisting that Taiwan be treated as an

independent sovereign state that the Bush Administration felt compelled to publicly warn that long-standing U.S. support for Taiwan is not unconditional. Some Members of Congress who strongly support Taiwan may seek to persuade the White House to maintain or increase U.S. support. Finally, the Bush Administration, concerned about North Korea's nuclear weapons program, has urged China to use what Secretary Colin Powell called its "considerable influence with North Korea." But continuing stalemate may spell deep trouble for the future of Six-Party Talks involving North and South Korea, Japan, Russia, China, and the United States. Congressional oversight might include whether the Administration has over-valued China's cooperation on North Korea at the expense of U.S. concerns over China's continuing threats to Taiwan and weapons proliferation activities.

Taiwan. [Kerry Dumbaugh, Specialist in Asian Affairs (7-7683); and Shirley Kan, Specialist in National Security Affairs (7-7606)] In legislative elections on December 11, 2004, Taiwan's opposition Nationalist Party (the KMT) dealt a surprising setback to the ruling Democratic Progressive Party (DPP) by increasing the KMT legislative majority to a more comfortable margin. The DPP had hoped to gain an unprecedented legislative majority after incumbent DPP President Chen Shui-ban won a second presidential term by a razor-thin margin in elections on March 20, 2004. Chen is on record as saying that Taiwan "is an independent, sovereign country," and he has promised to maintain this "status quo" despite Beijing's vow to "pay any price" to prevent it. Absent a legislative majority, Chen now is likely to have trouble implementing the more controversial of his policies. The DPP's growing departure from the KMT's long-held "one-China" policy has caused the Bush Administration to scale back its earlier enthusiasm for supporting Taiwan. Since late 2003, U.S. officials often have balanced criticisms of the People's Republic of China (PRC) with periodic warnings that U.S. support for Taiwan is not unconditional, but has limits.

Congressional oversight covers the Administration's implementation of the Taiwan Relations Act (TRA) in managing peace and stability, including offering security assistance to Taiwan. Since the early 1990s, and accelerating after 1999, the People's Liberation Army (PLA) in mainland China has modernized with a missile buildup and modern weapons acquired primarily from Russia. The Pentagon's annual report to Congress warned in May 2004 that "the cross-strait balance of power is steadily shifting in China's favor." It also warned Taiwan that its "apparent lack of political consensus over addressing [military challenges] with substantially increased defense spending is undoubtedly seen as an encouraging trend in Beijing." Despite increasing U.S. concerns over the years and offers of arms sales, Taiwan's legislature has delayed consideration of a proposed \$18 billion Special Budget to acquire submarines, anti-submarine warfare aircraft, and missile defense systems. Moreover, Taiwan is cutting its annual defense budget for 2005. The U.S. policy debate includes issues about whether the United States should clearly articulate more limited or greater commitment to Taiwan's self-defense, should have higher-level communication, should work closer with Taiwan's military to boost deterrence and readiness, and should promote cross-strait dialogue.

India and Pakistan. [Alan Krondstadt, Analyst in Asian Affairs (7-5415)] In the wake of the terrorist attacks on the United States, Congress and President Bush waived existing proliferation-related sanctions on India. New Delhi's post-9/11 offer

of full support for U.S.-led anti-terrorism efforts was viewed as reflecting a sea change in U.S.-India relations enabled by the collapse of the Soviet Union and the end of global bipolarity. Positive interaction has become the norm as the two countries pursue a “strategic partnership” based on counterterrorism cooperation, joint military exercises, growing defense trade, and a “Next Steps in Strategic Partnership” initiative that seeks to expand cooperation in the areas of civilian nuclear activities, civilian space programs, and high-technology trade, and expand dialogue on missile defense. India’s status as a de facto nuclear weapons state that is not signatory to the major nonproliferation treaties continues to constrain bilateral cooperation in these areas. The sale to India of major U.S.-made weapons systems may accelerate in 2005. In the interests of regional stability, the United States supports an ongoing India-Pakistan peace initiative and remains concerned about the potential for conflict over Kashmiri sovereignty to cause hostilities between these two nuclear-armed countries. Congress also continues to have concerns about abuses of human rights and religious freedoms in India, along with bilateral trade and the continuation of reforms in the still relatively closed Indian economy. Moreover, the spread of HIV/AIDS in India has attracted congressional attention as a serious development.

The United States seeks to balance an acute interest in Pakistan’s continued counterterrorism cooperation, especially as regards Afghan stabilization and the capture of Al Qaeda leadership, with tandem concerns about weapons proliferation and the perceived need to encourage development of a more democratic and moderate Pakistani state. Key U.S. concerns regarding Pakistan include regional terrorism; weapons proliferation; tensions over Kashmir; and democratization and human rights protection. The U.S.-Pakistan relationship was transformed after September 11, 2001 with the ensuing enlistment of Pakistan as a pivotal ally in U.S.-led counterterrorism efforts. Congress and President Bush waived existing proliferation- and coup-related sanctions on Pakistan, and large-scale U.S. assistance resumed in the final months of 2001. The roles of Islamist political parties and indigenous terrorist groups in Pakistan complicate policymaking by both Islamabad and the U.S. government. Moreover, evidence of the “onward” proliferation of Pakistani nuclear weapons materials and technologies became stark in 2004 when Pakistani metallurgist A.Q. Khan confessed to having sold these to North Korea, Iran, and Libya. The Bush Administration claims that Khan’s global network has been terminated, but Pakistan refuses to allow U.S. or international investigators access to Khan, and questions about the possible complicity of the Pakistani military and/or government remain unanswered. Some Members of Congress have expressed concerns that despite the holding of national elections in 2002, the Pakistani military has marginalized the country’s non-Islamist parties and consolidated its grip on power in contravention of democratic principles. The State Department determined that Pakistan’s record on human rights remained poor in 2003. The United States reportedly has received pledges from Islamabad that all cross-border terrorism in Kashmir would cease and that any terrorist facilities in Pakistani-controlled areas would be closed. Pakistan received nearly \$2 billion in U.S. assistance for FY2002-FY2004. President Bush called for establishment of a five-year, \$3 billion aid package for Pakistan beginning in FY2005.

Southeast Asia. [Mark Manyin, Analyst in Asian Affairs (7-7653), Emma Chanlett-Avery, Analyst in Asian Affairs (7-7748) and Bruce Vaughn, Analyst in Asian Affairs (7-3144)] When dealing with Southeast Asia, Congress primarily will be concerned with overseeing and funding efforts to combat radical Islamist terrorist groups in the region, particularly the Jemaah Islamiya (JI) network, which has extensive ties with Al Qaeda. To combat the threat, the Bush Administration has pressed countries in the region to arrest suspected terrorists, deployed troops to the southern Philippines, increased intelligence-sharing operations, restarted military relations with Indonesia, and provided or requested from Congress over \$1 billion in aid to Indonesia, the Philippines, and Thailand. Partly due to these efforts, JI's ability to conduct large-scale attacks appears to have diminished significantly.

Further pursuit of the war on terrorism in Southeast Asia poses several challenges. The first is distinguishing between, on the one hand, groups that advocate pan-Islamic agendas and sponsor terrorism against Western targets and, on the other hand, situations in which violence has arisen because of national government action or neglect and does not threaten U.S. interests. Second, the United States has to work around the increasing ambivalence of many Southeast Asian governments — particularly in Indonesia and Malaysia, which are predominantly Muslim countries — toward working with the United States on security matters. Additionally, the Administration faces the challenge of forging closer cooperation with Indonesia, the locus of much terrorist activity, while military ties remain subject to congressionally imposed human rights and accountability conditions that have not been met.

Other regional issues of interest to Congress are likely to include secessionist movements that both threaten Indonesia's territorial integrity and also give rise to human rights concerns, China's growing influence, Burma's military dictatorship, and "human security" issues such as HIV/AIDS and trafficking in drugs and women. Additionally, two trade agreements currently being negotiated would be subject to congressional approval: a U.S.-Thailand FTA and a U.S.-Vietnam agreement on Hanoi's accession to the WTO, a move that would require Congress to decide whether or not to extend permanent normal trade relations (PNTR) status to Vietnam.

CRS Issue Brief IB93097, *India-U.S. Relations*, by K. Alan Kronstadt.

CRS Issue Brief IB94041, *Pakistan-U.S. Relations*, by K. Alan Kronstadt.

CRS Report RL32259, *Terrorism in South Asia*, by K. Alan Kronstadt and Bruce Vaughn

CRS Report RL332615, *Pakistan's Domestic Political Developments*, by K. Alan Kronstadt.

CRS Report RL31815, *U.S.-China Relations: Current Issues for the 108th Congress*, by Kerry Dumbaugh.

CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*, by Kerry Dumbaugh.

CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

CRS Report RL32466, *Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy*, by Emma Chanlett-Avery.

CRS Report RL31672, *Terrorism in Southeast Asia*, coordinated by Mark Manyin.

CRS Report RL32688, *China-Southeast Asia Relations*, by Bruce Vaughn.

CRS Report RL32394, *Indonesia: Domestic Politics, Strategic Dynamics, and American Interests*, by Bruce Vaughn.

CRS Report RS20749, *Burma-U.S. Relations*, by Larry Niksch.

Europe

Overview. [Kristin Archick, Analyst in European Affairs (7-2668)] Congress is likely to take an interest in a number of policy issues concerning European security, the Balkans, Russia, and Eurasia during the 109th Congress. U.S. relations with its European allies and friends in both NATO and the European Union (EU) have been severely strained over the last few years amid the crisis in Iraq and other foreign policy and trade disagreements. Some European partners have lost confidence in U.S. leadership and question the U.S. commitment to NATO and further EU integration. At the same time, NATO continues its post-Cold War evolution, and Members of Congress will likely be looking for improved European military capabilities to enable the allies to shoulder a greater degree of the security burden, both within and outside of Europe. Congress is also likely to strongly support continued close U.S.-EU law enforcement cooperation against terrorism. The Balkans remain a key area of concern, with U.S. forces still engaged in Bosnia and Kosovo. The EU's takeover of the NATO peacekeeping force in Bosnia will be closely watched and will be an important test for NATO-EU relations. The future status of Kosovo and bringing Balkan war criminals to justice remain two important challenges. And Members of Congress will probably continue to support drawing the countries of the Western Balkans closer to NATO and the EU, and will continue to encourage the EU to put Turkey on an irreversible membership track.

Russia, despite its continuing military weakness, also remains of great interest to U.S. policymakers given its political influence and geographic reach, especially in regions of concern to Washington, such as Ukraine, Moldova, Central Asia, and the South Caucasus. Congress is likely to continue to debate the appropriate balance between securing Russia as a friend able to contribute to the fight against terrorism, and addressing worries about Moscow's commitment to democracy, human rights, and non-proliferation. Russia's human rights abuses in Chechnya, as well as escalating Chechen terrorism, will probably continue to trouble Members of Congress, and may be increasingly raised by European counterparts as an issue of concern for both NATO and the EU.

Transatlantic Relations. [Kristin Archick, Analyst in European Affairs (7-2668)] U.S.-European relations have been fundamentally challenged in recent years as numerous foreign policy and trade conflicts have emerged in the transatlantic partnership. The crisis over Iraq is most notable, but the list of disputes includes the Israeli-Palestinian conflict, the International Criminal Court, the U.S. treatment of prisoners at Guantánamo Bay and Abu Ghraib, genetically-modified food, aircraft subsidies, and climate change. Different U.S. and European perspectives on the role of multilateral institutions and the use of force are at the core of many of these disagreements. The Bush Administration says that it will make mending transatlantic relations a priority in its second term, but contentious issues such as Iran and the possible lifting of the EU's arms embargo on China may be stumbling blocks. Supporters of strong transatlantic ties stress that the United States and Europe face a common set of international challenges, have few other prospective partners, and share an increasingly interdependent and mutually beneficial economic relationship. However, others question whether the two sides of the Atlantic still share the same values and interests, and whether enough commonality remains to make the partnership work. Congress is likely to continue to evaluate how the transatlantic relationship serves U.S. interests, and may seek to play a role in shaping the debate over the future of U.S.-European relations.

Stability in the Balkans. [Steven Woehrel, Specialist in European Affairs (7-2291)] U.S. policymakers have seen stability in the Balkans as an important part of creating a Europe "whole, free, and at peace," a key U.S. policy objective. European countries currently provide the lion's share of troops and aid to the region, although the U.S. role remains substantial. In foreign aid appropriations legislation, the 109th Congress will consider how much aid to provide to assist reforms in Bosnia, Serbia and Montenegro, Kosovo, and other countries in the region. The 109th Congress will also debate the conditions under which that aid should be given. Aid to Serbia could be conditioned on Belgrade's cooperation with the International Criminal Tribunal for the former Yugoslavia, as previous Congresses have done.

The Bush Administration has gradually reduced U.S. troop levels in the Balkans, as conditions on the ground have permitted and in agreement with NATO allies and other countries that contribute troops. In December 2004, a European Union military contingent took over from the NATO-led Stabilization Force in Bosnia. Several hundred U.S. troops remain in Bosnia to help fight terrorism, track down war criminals, and assist defense reforms. There are about 1,800 U.S. troops in Kosovo as part of a NATO-led peacekeeping force. A possible withdrawal of U.S. forces from Kosovo may have to await a decision on the final status of the province;

that is, whether it should remain an internationally administered, autonomous province under nominal Serbian sovereignty, or become an independent country, or perhaps have some other status. The 109th Congress, like the 108th, may consider resolutions about Kosovo's final status, including those advocating independence for Kosovo. A review conducted by the United States and other leading Western countries in mid-2005 may lead to the beginning of final status talks.

Congress will monitor the progress of the countries of the region in fighting terrorism. Since the September 11, 2001 attacks, Al Qaeda cells in Albania and Bosnia have been shut down by local governments, in cooperation with the United States. However, rampant organized crime and corruption in the region continue to provide an environment in which terrorists can operate.

CRS Report RL32577, *The United States and Europe: Possible Options for U.S. Policy*, by Kristin Archick.

CRS Report RL32342, *NATO and the European Union*, by Kristin Archick and Paul Gallis.

CRS Report IB10087, *U.S.-European Union Trade Relations: Issues and Policy Challenges*, by Raymond Ahearn.

CRS Report RS21744, *Bosnia and International Security Forces: Transition from NATO to the European Union in 2004*, by Julie Kim.

CRS Report RL32136, *Future of the Balkans and U.S. Policy Concerns*, by Steven Woehrel.

CRS Report RL31053, *Kosovo and U.S. Policy*, by Steven Woehrel and Julie Kim.

Latin America and the Caribbean

Overview. [Mark P. Sullivan, Specialist in Latin American Affairs (7-7689)] Legislative and oversight attention to Latin America and the Caribbean in the 109th Congress will likely focus on continued counternarcotics efforts, especially in the Andean region; trade issues, including consideration of several free trade agreements and the status of negotiations for the Free Trade Area of the Americas; efforts to deal with threats to democracy in such nations as Haiti and Venezuela; debate over the best means to foster political change in Communist Cuba; and efforts to increase cooperation on border security and anti-terrorism efforts, especially with Mexico. U.S. support for Colombia has included significant foreign assistance and material support to assist the government in combating drug trafficking and the threats posed by guerrilla and paramilitary terrorist groups. Haiti's persistent poverty and political instability will likely remain a congressional concern, as will the question of whether the United States is providing adequate support for the success of the U.N. Stabilization Mission in Haiti. Congress will likely maintain an active interest in neighboring Mexico with myriad migration, trade, and border issues dominating the agenda. At this juncture, it is unclear whether Congress will consider implementing legislation for a combined U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), or for an agreement only with the five Central

American governments (CAFTA). The Administration has warned the Dominican Republic that it would not include the country in the agreement unless it rescinds a 25% tax on beverages containing high-fructose corn syrup.

Colombia and the Andean Counterdrug Initiative. [Connie Veillette, **Analyst in Latin American Affairs (7-7127)**] The Andean Counterdrug Initiative (ACI) is the primary U.S. program that supports Plan Colombia, a plan developed by the Colombian government to combat drug trafficking and related guerrilla activity. Because Plan Colombia was developed as a six-year plan, the 109th Congress will most likely review its progress in response to an anticipated Administration request to continue U.S. assistance after FY2005. Such consideration could provoke a broader debate on the effectiveness of U.S. counternarcotics policy in the region. U.S. support for Plan Colombia began in 2000, when Congress passed legislation providing \$1.3 billion in interdiction and development assistance (P.L. 106-246) for Colombia and six regional neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. Funding for ACI from FY2000 through FY2005 totals approximately \$4.2 billion. Colombia produces 80% of the world's supply of cocaine and increasing amounts of high-quality heroin. Illegally armed groups of both the left and right are believed to participate in the drug trade. In addition to the basic debate over what role the United States should play in Colombia's struggle against drug trafficking and illegally armed groups, Congress has repeatedly expressed concern with a number of related issues. These include continuing allegations of human rights abuses; the expansion of U.S. assistance for counterterrorism and infrastructure protection; the health and environmental consequences of aerial fumigation of drug crops; the progress of alternative development to replace drug crops; the level of risk to U.S. personnel in Colombia, including the continued captivity of three American hostages by the Revolutionary Armed Forces of Colombia (FARC); and the current demobilization talks between the Colombian government and paramilitaries.

Haiti. [Maureen Taft-Morales, **Specialist in Latin American Affairs (7-7659)**] The main issue for U.S. policy will be how to contain Haiti's growing instability. Ongoing violence and the lack of a functioning infrastructure make it difficult to pursue other Administration goals in Haiti, such as decreasing narcotics trafficking, promoting democracy, and alleviating poverty. A further Administration goal, of limiting illegal immigration, has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers. Since armed rebellions led to the departure of President Jean-Bertrand Aristide in February 2004, an interim government has taken over, but security conditions are so tenuous that observers are calling Haiti a failed state in danger of descending into civil war, anarchy, or a criminal state. The Haitian National Police are considered understaffed and underequipped to maintain order. The U.N. Stabilization Mission in Haiti (MINUSTAH) is also understaffed, as member governments have sent only about half the troops that were authorized. MINUSTAH's ability to carry out its mandate to establish law and order is further hampered by the diversion of its resources to help protect and deliver emergency assistance following natural disasters that left thousands dead or homeless. As political disarray continues, human rights violations are increasing, and elections scheduled for late 2005 are placed in greater jeopardy. The FY2005 Foreign Operations Appropriations Act (incorporated as Division D into H.R. 4818, the FY2005 Consolidated Appropriations Act [P.L. 108-447]) requires the Administration to provide Congress reports on a multi-year assistance strategy

within 90 days, and on a reforestation strategy, including funding requirements, within 180 days of the bill's enactment. Supporters of trade preferences for Haiti have said they may bring them up for reconsideration in the new Congress.

Cuba. [Mark P. Sullivan, Specialist in Latin American Affairs (7-7689)] As in past years, the main issue for U.S. policy toward Cuba in the 109th Congress will be how to best support political and economic change in the one of world's remaining Communist nations. Since the early 1960s, U.S. policy toward Cuba under Fidel Castro has consisted largely of isolating the island nation through comprehensive economic sanctions. Another component of U.S. policy consists of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba. The Bush Administration has further tightened restrictions on family and educational travel and on the provision of private humanitarian assistance. While there has been broad agreement in Congress on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island — there have been several schools of thought on how best to achieve that objective. Some advocate maximum pressure on the Cuban government until reforms are enacted, while others argue for lifting some U.S. sanctions that they believe are hurting the Cuban people. Still others call for a swift normalization of U.S.-Cuban relations. Over the past several years, Congress has continued its high level of interest in Cuba with a variety of legislative initiatives regarding sanctions and human rights. Both chambers have approved resolutions condemning the poor human rights situation, and both have approved appropriations measures easing Cuba sanctions, especially on travel. None of the provisions easing sanctions has made it through conference. The Bush Administration regularly has threatened to veto measures that would ease Cuba sanctions.

Mexico. [K. Larry Storrs, Specialist in Latin American Affairs (7-7672)] Congressional interest in Mexico is expected to focus on immigration issues in 2005 because President Bush and President Fox both expressed the desire shortly after President Bush's re-election to follow up on his earlier immigration proposal. President Bush called in January 2004 for an overhaul of the immigration system to permit the matching of willing foreign workers with willing U.S. employers when no Americans can be found to fill available jobs. Under his proposal, temporary legal status would be granted to new foreign workers who have work offers in the United States and to undocumented workers already employed in the United States for a term of three years that could be renewed but would end at some point. The proposal is in line with Fox-Bush pledges in 2001, subsequently stalled because of terrorism concerns, to achieve more orderly and humane migration flows between the countries, and is similar to several recent congressional initiatives with guest worker and/or amnesty provisions. Congress is also expected to deal with immigration provisions that were left out of the Intelligence Reform and Terrorism Prevention Act of 2004, (S. 2845/P.L.108-458) passed at the end of the 108th Congress, including provisions in the pre-conference House version that would have prohibited the acceptance of Mexican consular ID cards and the issuance of drivers' licenses to undocumented aliens, and that would have required the completion of a section of a wall along the border in California. With regard to trade issues, Mexico is the United States' second most important trading partner, linked together in the North American Free Trade Agreement (NAFTA), but there are various disputes between

the countries. Mexico has complained, for example, that the United States is still failing to grant Mexican trucks access to U.S. highways, and the United States has complained about Mexico's 20% tax on soft drinks made with high-fructose corn syrup (HFCS).

CRS Report RL31726, *Latin America and the Caribbean: Issues for the 108th Congress*, coordinated by Mark P. Sullivan.

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.

CRS Report RL32250, *Colombia: Issues for Congress*, by Connie Veillette.

CRS Report RL31740, *Cuba: Issues for the 108th Congress*, by Mark P. Sullivan.

CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by Maureen Taft-Morales.

CRS Report RL31876, *Mexico-U.S. Relations: Issues for Congress*, by K. Larry Storrs.

Middle East

Overview. [Alfred B. Prados, Specialist in Middle East Affairs (7-7626)] Insurgency in Iraq, chronic Arab-Israeli tensions, and threats to U.S. interests posed by international terrorism and weapons proliferation continue to mark the Middle East landscape and are likely to be topics of major concern during the 109th Congress. In the Persian Gulf area, U.S. and allied forces continue to battle a combination of former Saddam Hussein loyalists, radical Islamic fundamentalists, and infiltrators from neighboring countries seeking to overthrow the U.S.-sponsored interim government in Iraq and force the withdrawal of U.S. and other international peacekeeping forces. Some think the recent death of Palestinian President Yasir Arafat may offer an opportunity to reinvigorate stalled Israeli-Palestinian peace negotiations, but others doubt that any likely successor will command enough prestige to conclude a viable agreement with Israel in the near term. Israeli leaders, on their part, may be unwilling or unable to pursue further negotiations. Although Iran agreed to suspend its uranium enrichment activities, many observers believe that Iran's leadership remains committed to acquiring nuclear weapons, and U.S. officials are worried about Iranian attempts to meddle in Iraq's fragile political scene. Prospects for regional stability, smooth political succession in regional countries with aging leaders, and implementation of U.S.-sponsored initiatives to promote democracy and development in the greater Middle East are also likely to be topics of congressional interest during the months ahead.

Congress is likely to play an important role in monitoring U.S. force deployments and military expenditures resulting from the on-going conflicts in Iraq and Afghanistan. An Administration request for supplemental funding to defray these costs is anticipated early in 2005. Congress will also face future requests by the Administration to provide funds to cover economic and military assistance to countries that play central roles in Arab-Israeli peacemaking endeavors and the war

on terrorism, notably Israel, Egypt, Jordan, and the Palestinians. In its oversight function, Congress will likely scrutinize the policies of other key regional actors, including countries on the State Department's terrorism list. In this connection, the Administration is moving toward normalizing relations with apparently rehabilitated terrorist sponsor Libya, while it has suggested the possibility of additional sanctions against Syria, a move which has some support in Congress. Legislation to implement recommendations of the *9/11 Commission Report*, which addresses several aspects of U.S. Middle East policy, was passed at the end of the 108th Congress.

Syria and Lebanon. [Alfred B. Prados, Specialist in Middle East Affairs (7-7626) and Aaron Pina, Analyst in Middle East Affairs (7-4589)] Syria is entangled in a number of important U.S. policy issues in the Middle East, including the war on terrorism, the spread of weapons of mass destruction, efforts to resolve the Arab-Israeli conflict, the situation in Lebanon, and the turmoil in Iraq since the overthrow of former Iraqi President Saddam Hussein. U.S. officials have taken increasing interest in Syrian actions, demanding that Syria cooperate more effectively in monitoring the Iraq-Syria border to curb infiltration of foreign fighters into Iraq, end support for Palestinian and Lebanese terrorist organizations, withdraw forces from Lebanon, and support other U.S. objectives in the region. Although Syrian officials maintain that they are trying to accommodate U.S. concerns, Administration officials and Members of Congress have increasingly favored use of additional economic sanctions to pressure Syria to stop activities at variance with U.S. policies. On December 12, 2003, President Bush signed H.R. 1828, the Syria Accountability and Lebanese Sovereignty Restoration Act (P.L. 108-175), which banned most U.S. exports to Syria and imposed other penalties. Some U.S. officials have suggested the possibility of stricter sanctions either under P.L. 108-175 or additional legislation. The 108th Congress passed H.R. 4818, the FY2005 Consolidated Appropriations Act, which authorizes an undetermined amount to make grants to non-governmental organizations and individuals inside Syria to support the advancement of democracy and human rights.

Syria's dominant role in Lebanon is a key concern. The remnants of civil war in Lebanon and tensions between Israel and Syria over the Israeli occupation of southern Lebanon continue to be factors in Syria's continued military presence in Lebanon. Additionally, some Syrians see the historic national theme of "Greater" Syria (Pan-Syrianism) as encompassing Lebanon. The October 20, 2004 resignation of the Lebanese Prime Minister Rafik Hariri concurrent with the Syrian-influenced extension of Lebanese President Lahoud's six-year term by three years further suggests Syrian dominance in Lebanese political life; yet there remains some debate within the Lebanese political sphere whether Syria is an occupying power or an invited guest of Lebanon. According to various reports, Syrian troop levels have decreased from a high of 35,000-40,000 in 1976, to a present deployment of roughly 14,000. In addition to political activities, Syria also lends credible support to the Lebanon-based, pro-Iranian Shi'i nationalist militia Hizballah (Party of God). Although nearly all Israeli forces have been withdrawn from Southern Lebanon, excluding the disputed region known as Shib'a Farms, Hizballah continues to launch attacks against Israeli interests in southern Lebanon in an effort to eject Israel entirely from what it regards as Southern Lebanon. Syria's role in Lebanon may inspire follow-up legislation to the Syria Accountability and Lebanese Sovereignty Restoration Act passed by the 108th Congress.

Democracy and Reform. [Jeremy Sharp, Analyst in Middle Eastern Affairs (7-8687)] Since the September 11, 2001 terrorist attacks, many experts have stated that the fight against terrorism cannot be won using force alone; it must be accompanied by long-term policies that address development and reform issues in Arab and Muslim-majority countries. The Bush Administration has launched several initiatives to promote democracy and reform in the Middle East and in countries with significant Muslim populations. The 109th Congress will consider funding levels for these programs and conduct oversight to review their effectiveness in promoting good governance and development in a region dominated by autocratic regimes. In addition, some lawmakers have suggested that U.S. bilateral assistance programs to Arab governments, such as Egypt, should place greater emphasis on encouraging reform. Some critics argue that U.S. efforts to promote democracy in the Middle East will only encourage opponents of U.S. policy in the region who may perceive U.S. involvement as an exercise in U.S. imperialism or an imposition of democracy by the West.

Through annual foreign operations and State Department appropriations legislation, Congress currently provides funding for the following programs: the Middle East Partnership Initiative (MEPI) — a State Department program designed to encourage reform in Arab countries by strengthening Arab civil society, encouraging micro-enterprise, expanding political participation, and promoting women's rights (\$75 million for FY2005); the State Department's Human Rights and Democracy Fund (HRDF) — an account that funds human rights promotion in Muslim-majority countries (\$11 million for FY2005); and the National Endowment for Democracy's (NED) Muslim Democracy Program (\$4 million for FY2005). Beyond U.S.-sponsored programs, the Administration proposed and participates in the "Broader Middle East & North Africa Initiative," a G-8-led development and reform initiative aimed at fostering economic and political liberalization in a wide geographic area of Arab and non-Arab Muslim countries. At this time, it is unclear what resources the United States will devote to the initiative.

Libya. [Clyde Mark, Specialist in Middle Eastern Affairs (7-7681)] U.S.-Libyan relations were broken by a series of military encounters in the 1970s and 1980s, including the 1986 U.S. accusation of Libyan involvement in the Berlin nightclub bombing followed by U.S. air strikes on Libya, and the 1988 bombing of Pan Am 103. Throughout this period, the United States applied a series of sanctions that prohibited commercial contacts with Libya. A trial of two Libyan nationals charged with bombing Pan Am 103 ended in 2001 with one acquittal and one conviction. To comply with a U.N. resolution, Libya offered to compensate each of the Pan Am 103 victims with an initial payment of \$4 million when the U.N. sanctions were lifted, another \$4 million payment when the United States lifted its sanctions, and a final \$2 million payment when the United States removed Libya from the terrorism list. Libya extended the deadline twice and the United States lifted all but the terrorism sanctions, which prohibit transfers of military and dual use items. In December 2003, Libya renounced chemical, biological, and nuclear weapons, and opened the country to international inspection. With the lifting of travel and financial sanctions, U.S. business interests have returned to Libya, and the United States and Libya have opened preliminary diplomatic relations. The FY2005 Consolidated Appropriations Act provides the opportunity for increasing trade with Libya by adding a Presidential waiver of existing restrictions against Export-Import

Bank transactions (Section 113, Title I, Division J, P.L. 108-447). Congress probably will continue to monitor events in Libya, including its compliance with non-proliferation and compensation obligations, and the President's handling of the remaining terrorism sanctions.

CRS Issue Brief IB89118, *Lebanon*, by Clyde R. Mark.

CRS Issue Brief IB92075, *Syria: U.S. Relations and Bilateral Issues*, by Alfred B. Prados.

CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2005 Request*, by Jeremy M. Sharp.

CRS Report RS21457, *The Middle East Partnership Initiative: An Overview*, by Jeremy M. Sharp.

CRS Report RL32407, *The Greater Middle East Initiative: An Overview*, by Jeremy M. Sharp.

CRS Issue Brief IB93109, *Libya*, by Clyde Mark.

CRS Report RL32604, *Libya: Legislative Basis for U.S. Economic Sanctions*, by Dianne Rennack.

CRS Report RS21823, *Disarming Libya: Weapons of Mass Destruction*, by Sharon Squassoni and Andrew Feickert.

Defense and Security

Overview: Defense Strategy and Military Force Planning [Stephen Daggett, Specialist in National Defense (7-7642)]

Since the end of the Cold War, often with prodding from Congress, successive Administrations have repeatedly tried to articulate the principles that should guide national security policy, defense strategy, and military force planning. During the Bush Administration, strategy has been under extensive, continuing, and evolving review. In September 2001, shortly after the attacks of September 11, the Defense Department released the congressionally mandated "Quadrennial Defense Review" (QDR), which laid out the premises of defense strategy. In September 2002, the White House issued a broader statement of "The National Security Strategy of the United States," which, among other things, asserted a right to act preemptively to prevent unacceptable threats from arising. In May 2004, the Joint Chiefs of Staff completed a formal statement of "The National Military Strategy of the United States." The next Quadrennial Defense Review is required no later than February 2006, and the Defense Department is already beginning preparations.

For military planners, the main burden of the evolving strategic guidance from these and other reviews has been to expand the range of military capabilities that policymakers expect to have available. Administration officials have dismissed the

old requirement that forces be prepared for two major theater wars as much too limiting. The 2001 QDR mandated that forces be prepared to defend the homeland, to deter threats in four major regions while simultaneously engaging in smaller-scale contingency operations, to swiftly defeat larger-scale attacks in two regions, and to win decisively in one area. This is now called the “1-4-2-1 strategy construct.” The war-fighting requirement has since been refined to mandate the ability to deploy an adequate force to a distant theater within 10 days, defeat an enemy within 30 days, and recover quickly enough to handle a second conflict 30 days later.

Subsequently, other requirements have been added. Forces should be able to defeat challenges ranging from terrorism in ungoverned areas, to irregular warfare including insurgencies, to other asymmetric threats that do not directly challenge U.S. strengths, to disruptive threats from future competitors that would challenge U.S. power in space or other realms, and to potentially catastrophic threats, particularly from non-state or rogue-state actors possessing weapons of mass destruction. A demanding goal recently under discussion is to be able to keep 200,000 troops in place in stability operations for five years while remaining prepared for other major operations and without exceeding guidelines limiting overseas rotations of active or reserve personnel. Having laid out a full range of requirements, senior officials are now trying to establish metrics by which to assess how well current forces perform and, in the long run, to help guide how limited resources will be allocated. New requirements have led to major changes in the organization of the Army and, in coming months, may shape decisions on weapons programs and on active and reserve troop levels that are of considerable interest to Congress.

CRS Report RS21754, *Military Forces: What Is the Appropriate Size for the United States?* by Edward Bruner.

Defense Budget Trends and Issues for Congress [Stephen Daggett, Specialist in National Defense (7-7642)]

Defense spending is a major focus of action in Congress every year, initially in debate over the annual congressional budget resolution and later when Congress considers annual defense authorization and appropriations bills. Last year, the Administration requested \$422 billion in funding for national defense in regular FY2005 appropriations bills and later asked for an additional \$25 billion in emergency funding for Iraq and Afghanistan. For FY2006, last year’s projection was for about \$440 billion in regular defense funding, which is subject to change when the White House budget is submitted in February 2005. The Administration is also expected to ask for supplemental FY2005 defense appropriations ranging from \$65 billion to \$80 billion in February, and may later amend the FY2006 budget to ask for another \$25 billion or so for Iraq and Afghanistan, as it did last year. In all, Congress is likely to act on requests of well over \$500 billion for defense in the first session of the 109th Congress.

One issue for Congress, to be addressed early in the year in action on the budget resolution, is how trends in defense fit with steps that may be needed to control federal budget deficits. In the past, dating back to the Gramm-Rudman-Hollings deficit control acts of the 1980s, defense budgets have been constrained by efforts to

rein in budget deficits. Last year, for the first time in several years, defense spending was an issue in action on the budget resolution, when the Senate rejected a proposal to trim the Administration's recommended total by \$7 billion. With defense slated to grow by about \$20 billion a year for the next several years in White House projections, one issue in Congress may be whether to limit future growth in defense.

Even if Congress does not decide to trim projected levels of defense spending, some potentially controversial trade-offs within the defense budget may be on the agenda. Already several Members of Congress have objected strongly to a reported cut in the rate of shipbuilding in the FY2006 Navy budget. Last year, Congress increased the statutory end-strength of the Army by 20,000 troops and of the Marine Corps by 3,000 troops over Pentagon objections. For the present, these increases are being paid for with supplemental appropriations. One issue is whether such increases should be maintained in the future, and if so, how to pay for them. The ongoing restructuring of the Army also has equipment and operating costs that were not fully covered in earlier Army budget plans, and one issue is whether these costs should be covered by delaying Army programs such as the Future Combat System (FCS).

Other weapons programs may also be matters of debate. Last year, Congress cut back on some high-profile space programs, including the Space-Based Radar and the Transformational Communications Satellite. Funding for those and other very costly space programs may be on the agenda again this year. There also remain questions about the overall affordability of long-term weapons acquisition programs, including the F-22 fighter, the F-35 Joint Strike Fighter, and missile defense, particularly to the extent that there continues to be cost growth in these and other programs. Finally, Congress has, in recent years, added substantial amounts for military personnel pay and benefits. There continues to be significant support in Congress for additional benefit increases, particularly for military reservists. A key budget issue is how to offset the long-term costs of any new personnel benefits.

CRS Report RL32305, *Authorization and Appropriations for FY2005: Defense*,
by Stephen Daggett and Amy Belasco.

CRS Report RL32310, *Appropriations for FY2005: Military Construction*,
by Daniel H. Else.

CRS Report RL32468, *FY2005 Defense Budget: Frequently Asked Questions*,
by Jeffrey Chamberlin.

Defense Transformation

[Ronald O'Rourke, Specialist in National Defense (7-7610)]

The Administration argues that defense transformation (i.e., large-scale change and reform of U.S. defense capabilities) is needed to effectively meet 21st-century security challenges, and has justified many of its proposals for DOD on the grounds that they are needed for defense transformation. One potential transformation-related issue for the early days of the 109th Congress is the Administration's plan to reorganize the Army into a modular force organized around brigade-sized units. A second is the Administration's plan to significantly revise overseas basing arrangements for U.S. forces, which could affect U.S. military capabilities, the 2005

Base Realignment and Closure (BRAC) round, and U.S. relations with allies. A third is the Administration's reported intent to plan U.S. military capabilities so as to meet four kinds of military challenges — conventional military threats, irregular conflicts (such as terrorism, insurgencies, and civil wars), potential catastrophic events (defined as the acquisition, possession, and possible use of weapons of mass destruction against vulnerable, high-profile targets by terrorists and rogue states), and potential disruptive threats (i.e., breakthrough technologies that could marginalize current U.S. military advantages). Some observers believe this “four challenges” approach could lead to reduced funding for development and procurement of traditional military systems like aircraft, ships, and heavy armored vehicles.

CRS Report RL32238, *Defense Transformation: Background and Oversight Issues for Congress*, by Ronald O'Rourke.

CRS Report RL32476, *U.S. Army's Modular Redesign: Issues for Congress*, by Andrew Feickert.

Base Realignment and Closure

[David E. Lockwood, Specialist in U.S. Foreign Policy and National Defense (7-7621) and Daniel H. Else, Specialist in National Defense (7-4996)]

Early in the first session of the 109th Congress (no later than March 15), the President will appoint nine members to the Base Realignment and Closure (BRAC) Commission. In so doing, he will consult with senior congressional leaders, as follows: Speaker of the House (2 nominees); Majority Leader of the Senate (2 nominees); Minority Leader of the House (1 nominee); Minority Leader of the Senate (1 nominee). The three remaining appointments can be made by the President without consultation. In addition, it should be noted that BRAC law requires Senate confirmation for all nominees. In mid-May of 2005, the Secretary of Defense will forward to the BRAC Commission a list of recommended actions to realign or close a significant number of military installations within the United States and its territories. At the same time, an independent panel created by Congress, commonly referred to as the Overseas Basing Commission, will recommend a strategy for realigning U.S. military installations overseas — paralleling a similar effort that is being undertaken by the Department of Defense.

The domestic 2005 BRAC round is expected to be the last of five base closure rounds conducted in the transition following the end of the Cold War. The previous rounds, instituted in 1988, 1991, 1993, and 1995, resulted in 97 major military installations being closed or realigned, and affecting a total of 451 bases of all sizes. The net savings accrued from the first four rounds have been estimated at about \$17 billion to date. Overall, the four rounds of BRAC closures and realignments are widely regarded to have been a success. While numerous communities were adversely affected at the outset, over time many recovered — and even prospered. Some communities in rural areas, however, have not recovered.

In 2001, after much opposition from Members of Congress, the Department of Defense secured approval for a 2005 BRAC round. Subsequently, in February and March 2004, the Pentagon initiated a series of important steps by publishing its force

structure plan, infrastructure inventory, and base selection criteria. At this time, the Department of Defense is analyzing its current and future basing needs and drawing up the list of realignment and closure actions that will be implemented. In May 2005, the BRAC Commission will receive DOD's final list, review it, and forward its own recommendations to the President sometime in September. The President must submit his approved list to the 109th Congress no later than November 7, 2005. Congress then has 45 days to pass a motion of disapproval or the Commission's list becomes law.

In the previous four BRAC rounds, the Commissions included former Members of Congress, former retired military leaders, former U.S. ambassadors, notable business leaders, former House and Senate staff members, as well as former White House staff members. Also, previous BRAC Commissions made relatively modest changes to the Pentagon's closure and realignment list. They approved 85 percent of DOD's selection overall. Information currently circulating in the press, and elsewhere, indicates that approximately a hundred U.S. installations will be closed or realigned in the 2005 round, and that there will be many more realignments as compared to closures.

CRS Report RL30051, *Military Base Closures: Agreement on a 2005 Round*, by David E. Lockwood.

CRS Report RL32216, *Military Base Closures: Implementing the 2005 Round*, by David E. Lockwood.

CRS Report RS21822, *Military Base Closures: DOD's 2005 Internal Selection Process*, by Daniel H. Else and David E. Lockwood; see also Online Video: MM70068.]

CRS Report RS21975, *U.S. Military Overseas Basing: Background and Oversight Issues for Congress*, by Jon D. Klaus

Army Size and Requirements

[Andrew Feickert, Specialist in National Defense (7-7673)]

Under the provisions of the 2005 National Defense Authorization Act (H.R. 4200/P.L. 108-375), the active Army's current mandated ceiling of 482,400 soldiers will grow to 502,400 by the end of 2005 and to 512,400 by the end of 2009. The Army opposes this legislated end-strength increase of 30,000 soldiers, preferring instead to raise and lower its end-strength on a temporary basis through personnel actions such as mandatory extensions of enlistments. The Army's primary concern is how to pay for these 30,000 soldiers since Congress did not appropriate funds to pay for end-strength increases. The Army reportedly estimates that it will cost \$3.6 billion dollars annually in pay and benefits for the additional soldiers, while the Congressional Budget Office reportedly puts the figure at about \$2.6 billion annually.

The Army is undertaking a total organizational transformation to better meet current and future operational requirements. The Army is currently redesigning its current 10 active duty division force to be a 43 or 48 brigade-level force by FY2007. The reserves will also convert to a brigade-centric force over time. This redesign

effort, as well as associated restructuring and stabilization initiatives, is intended to sustain both the active and reserve Army through a potentially long-term, manpower and resource intensive war on terror. While supporters suggest that the additional brigades could help ease the deployment strain on the Army, critics argue that such a complete organizational transformation creates additional and unnecessary strains on the Army and its resources.

The Army's major equipment program, the Future Combat System (FCS), is an approximately \$117 billion research, development, and acquisition program, consisting of 18 manned and unmanned systems tied together by an extensive communications network. FCS is intended to replace such current systems as the M-1 Abrams tank and the M-2 Bradley infantry fighting vehicle with advanced networked combat systems. FCS has been described by both the Army and its critics as a high risk program because many of its key technologies are still conceptual in nature. The Army has slipped the initial operational capability of the first FCS-equipped brigade from 2012 to 2014 and intends to eventually field up to 15 FCS-equipped brigades. The Army is presently providing certain FCS systems, such as unattended sensors and unmanned aerial vehicles, to units in Iraq and Afghanistan and intends to "spiral in" certain FCS technologies and systems into the current force as they become available. The Army is concerned that the FCS may become the "bill payer" for the 30,000 soldier end-strength increase as well as for escalating costs associated with the wars in Iraq and Afghanistan.

CRS Report RL32476, *U.S. Army's Modular Redesign: Issues for Congress*, by Andrew Feickert.

CRS Report RS21754, *Military Forces: What Is the Appropriate Size for the United States?* by Edward Bruner.

Special Operations Forces

[Andrew Feickert, Specialist in National Defense (7-7673)]

U.S. Special Operations Forces (SOF) play a leading role in the war on terror. SOF forces are operating at a very high tempo world-wide. They are presently undergoing a modest expansion, limited primarily by the extremely high standards demanded of special operations personnel. SOF is experiencing retention difficulties among senior, retirement-eligible non-commissioned officers and warrant officers. Many of these most experienced operators are leaving the military at the 20-year mark for jobs in the private sector as security specialists or for jobs with the federal government such as with the CIA. Congress may elect to consider what, if any, steps could be taken to improve SOF personnel retention. Another issue is the 9/11 Commission recommendation that U.S. SOF should become responsible for covert paramilitary operations which are presently under the purview of the CIA. The Administration has ordered the Secretary of Defense and the Director of Central Intelligence to review the advisability of such a transfer of responsibility. While some suggest that SOF responsibility for paramilitary operations might improve the planning and execution of these operations, others argue that it will only add additional requirements to SOF forces that are presently operating at full capacity and could detract from their primary mission of locating and destroying terrorists.

CRS Report RS21048, *U.S. Special Operations Forces (SOF): Background and Issues for Congress*, by Andrew Feickert.

Other Acquisition/Technology Issues

Navy Shipbuilding. [Ronald O'Rourke, Specialist in National Defense (7-7610)] A leading Navy acquisition issue for the early days of the 109th Congress will be the number of Navy ships that the Administration proposes to procure in FY2006. Press reports have suggested that the Administration's proposed FY2006 defense budget could request funding for the procurement of four new Navy ships. This is fewer than the seven fully funded ships (plus two partially funded ships) that the Administration requested in its proposed FY2005 budget, and less than the average of nine or more ships per year that would be needed over the long run to maintain a Navy of about 300 ships. Some Members are concerned that the Administration's plans for Navy shipbuilding could over time reduce the Navy to significantly less than 300 ships and possibly endanger parts of the current Navy shipbuilding industrial base. These concerns have been heightened by the absence of a current, officially approved, consensus plan for the future size and structure of the Navy, and by reports that the Administration is considering reducing force-level goals for at least some parts of the fleet.

CRS Report RL32665, *Potential Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, by Ronald O'Rourke.

Air Forces Modernization. [Christopher Bolkcom, Specialist in National Defense (7-2577)] The Air Force's top priority is the F/A-22 Raptor originally designed to dominate aerial combat. New roles such as attacking advanced, ground-based air defenses may also be feasible. At issue are the aircraft's cost, schedule, the number to be procured, and whether cheaper aircraft might do the same job. The F-35 Joint Strike Fighter (JSF) is the largest aviation program in terms of estimated cost (\$233 billion) and numbers (2,900 aircraft). This multirole aircraft will be produced in three variants for the Air Force, Marine Corps, and Navy. At issue is the extent to which the JSF is needed relative to other aircraft such as the F/A-22 and the Navy's F/A-18E/F *Super Hornet*. Aerial refueling and long range bomber aircraft are also key modernization issues. The Air Force's KC-135 *Stratotanker* fleet is old and in need of replacement. Leasing Boeing 767 aircraft was proposed in the 108th Congress. The estimated cost and the terms of the lease proved controversial, and this option now appears untenable. DOD will not make a decision on replacing the aerial refueling fleet until analyses of aerial refueling requirements and potential alternatives are completed in 2005. The lack of funding for long-range bomber modernization, despite achievements in recent military operations, will also be debated in the 109th Congress.

CRS Issue Brief IB92115, *Tactical Aircraft Modernization*, by Christopher Bolkcom.

CRS Report RL32447, *Military Helicopter Modernization*, by Christopher Bolkcom.

CRS Report RL31544, *Long-Range Bombers*, by Christopher Bolkcom.

CRS Report RS20941, *Air Force Aerial Refueling*, by Christopher Bolkcom.

Ballistic Missile Defense. [Steven Hildreth, Specialist in National Defense (7-7635)] Congress largely supports Ballistic Missile Defense (BMD), having appropriated almost \$100 billion since the Reagan Strategic Defense Initiative (SDI) was launched in FY1985. Congress plays a major role in developing U.S. BMD policy and overall direction, as well as in program guidance, management, and oversight. In the 109th Congress, the Administration is expected to request support for: 1) annual BMD budget requests of \$10-\$11 billion; 2) continued deployment of a national BMD capability in Alaska, California, and perhaps elsewhere; 3) continued testing of national BMD technologies to build confidence in and increase effectiveness of the system now being deployed; and 4) BMD programs such as the Airborne Laser, the Space Tracking and Surveillance System (SSTS), and the Missile Defense System Interceptor program that some in Congress, the executive branch, and the private sector believe should be terminated.

CRS Report RL31111, *Missile Defense: The Current Debate*, by Steven A. Hildreth (coordinator).

Robust Nuclear Earth Penetrator. [Jonathan Medalia, Specialist in National Defense (7-7632)] The Robust Nuclear Earth Penetrator (RNEP) program is studying the feasibility and cost of modifying an existing nuclear bomb into one that can penetrate the ground perhaps a few tens of feet, greatly increasing its ability to destroy deeply buried facilities that an adversary might use to shelter leadership or weapons of mass destruction (WMD). A decision on whether to proceed awaits the outcome of the study. Supporters assert that this weapon would deter potential adversaries from threatening the United States by holding their most prized assets at risk; critics respond that it would make nuclear-weapon use more likely. It was debated in the 108th Congress and is likely to be at issue in the 109th as well.

CRS Report RL32599, *'Bunker Busters': Sources of Confusion in the Robust Nuclear Earth Penetrator Debate*, by Jonathan Medalia.

CRS Report RL32347, *Robust Nuclear Earth Penetrator Budget Request and Plan, FY2005-FY2009*, by Jonathan Medalia.

Military Personnel

Recruiting and Retention. [Lawrence Kapp, Specialist in National Defense (7-7609)] Since the September 11 terrorist attacks, and especially since the invasion of Iraq in 2003, military personnel have participated in extended and hostile deployments to an extent unprecedented since the inception of the All-Volunteer Force in 1973. Some analysts believe that these deployments are overtaxing U.S.

military personnel and will likely have a negative impact on military recruiting and retention. This concern is most pronounced with respect to Army personnel, who have borne the brunt of the occupation of Iraq.

Active Component military recruiting and retention rates, however, have remained generally strong to date. For example, all of the Services met their active duty enlisted recruit quantity and quality goals in FY2004. The Services also met or exceeded nearly all their active duty enlisted retention goals for FY2004, although the Navy failed to meet its retention goal for sailors with fewer than six years of service by about 2% and the Air Force failed to meet its retention goal for airmen in their second enlistment by about 5%. Recruiting and retention rates for Active Component officers have also remained generally strong, although there are some specialities (for example, certain types of pilots and medical personnel) where lower than optimal retention rates, sometimes over the course of many years, have produced officer shortages.

The Reserve Components have met most of their recruiting and retention goals in FY2004. The Army Reserve, Naval Reserve, Marine Corps Reserve, and Air Force Reserve all exceeded their recruiting and retention goals for enlisted personnel in FY2004. However, while the Army National Guard and the Air National Guard met their enlisted retention goals, they failed to meet their recruiting goals. The recruiting problem was most acute in the Army Guard, which missed its recruit quantity goal by about 13% in FY2004, after having missed its FY2003 recruit quantity goal by a similar margin. The Air National Guard missed its recruit quantity goal by about 6% in FY2004. The Army National Guard also failed to meet two key benchmarks for recruit quality: only 84% of its non-prior service enlistees had high school diplomas versus the DoD standard of 90%, and only 57% scored above average on the Armed Forces Qualification Test versus the DoD standard of 60%. With respect to officers, some of the Reserve Components — especially the Army National Guard and Army Reserve — have had difficulties maintaining an adequate population of junior officers in recent years. This may be partially due to negative impacts created by the high operations tempo which the Reserve Components have experienced over the past three years. However, some of the major causes of these shortfalls — for example, the high number of lieutenants who are separated from the Army National Guard and Army Reserve because they are not educationally qualified for promotion — existed before September 11th.

In FY2005, the active Army may encounter enlisted recruiting problems due to the small size of its Delayed Entry Program (DEP). The DEP is made up of those individuals who have signed a contract to join the military at a future date but who have not yet “shipped” to basic training. Typically, the Army likes to have about 35% of the coming year’s recruit quota already enrolled in the DEP. However, because the Army drew heavily on its DEP in FY 2004 to meet its recruit quantity goal, and because it fell short of its FY 2004 goal for new recruit contracts by 15%, it started FY2005 with only about 18% of the 80,000 individuals it hopes to send to basic training in the upcoming fiscal year. This relatively low level of the DEP may make it difficult for the Army to achieve its quantity goal for FY2005. The Army’s plan to meet this challenge includes increasing the size of its recruiting force by nearly 20% and offering more generous enlistment incentives. The Army may also

face challenges in meeting its retention goal for FY2005, which is 14% higher than it was in FY2004.

Congress has a number of options to address any recruiting and retention shortfalls that do occur. The traditional policy levers used by Congress and DOD include increased funding for advertising, increasing the size of the recruiting force, and larger enlistment, re-enlistment, and critical skills retention bonuses. Some have also argued that, in order to prevent serious recruiting and retention problems from surfacing in the future, the frequency and duration of military deployments needs to be decreased promptly. To facilitate this, they have advocated increasing the size of the military, reducing the number of U.S. military personnel deployed, or shortening the duration of rotations.

Reserve Benefits. [Lawrence Kapp, Specialist in National Defense (7-7609)] During the Cold War era, the Reserve Components were a manpower pool that was rarely tapped. From 1945 to 1989, reservists were involuntarily activated by the federal government only four times, an average of less than once per decade. Since the end of the Cold War, and especially in the aftermath of the September 11th attacks, the nation has relied much more heavily on the Reserves. Since September 11, 2001, the military has activated about 450,000 reservists into federal service. As the Reserves have been transformed from a “force of last resort” in the Cold War era to an integrated part of the military services in more recent years, some have argued that compensation for reservists needs to be enhanced in order to maintain a quality force and to ease the transition of reservists to and from active duty. Others have voiced concerns about the costs associated with such proposals and the impact that improved reserve benefits will have on active component recruiting and retention patterns. The major benefits improvements issues considered by the 108th Congress were access to TRICARE (the military’s health care system) for non-activated reservists and income protection for mobilized reservists. The 108th Congress approved several provisions that provided certain categories of non-activated reservists with access to TRICARE; however, these provisions are not as expansive as some advocates desired. Both the House and the Senate approved measures to protect the income of some mobilized reservists in the 108th Congress; however, neither of these provisions became law. Proposals to lower the age at which retired reservists begin drawing retired pay also generated significant congressional interest, but did not advance far in the legislative process. The 109th Congress will likely face similar issues as DOD continues to utilize a substantial number of reservists in Iraq, Afghanistan, and other places around the world.

CRS Report RL30802, *Reserve Component Personnel Issues: Questions and Answers*, by Lawrence Kapp.

Defense Business Operations: Management and Competitive Outsourcing

[Valerie Bailey Grasso, Analyst in National Defense (7-7617)]

The management of DOD service contracts, and contractors, has been a topic of congressional interest that will likely extend into the 109th Congress. Competitive sourcing was a major initiative identified by the first Bush Administration’s

Presidential Management Agenda, and it was one of five government-wide initiatives to improve the management and performance of the federal government. In the FY2005 National Defense Authorization Act (P.L. 108-375), Congress directed that DOD provide new accountability on the reporting of the size and scope of the service contractor workforce. The DOD Inspector General is required to report to Congress, by February 1, 2005, on whether DOD has a sufficient number of employees to satisfactorily conduct public-private competitions and administer any resulting contracts, and whether DOD has implemented a conclusive and dependable system to track and assess both the cost and the quality of functions performed by DOD service contractors.

DOD is required to submit two reports to Congress, by the end of April 2005, on managing certain aspects of its business operations. The first report is to provide guidance on the establishment of policies for the management and oversight of the contractors that support deployed forces in Iraq, including the roles and responsibilities of military commanders, coordination of the movement of contractor security personnel, establishment of rules of engagement for armed contractor security personnel, and the establishment of categories of security, intelligence, law enforcement, and criminal justice functions to determine if they are inherently governmental and should be performed by contractor personnel or military personnel. The second report will provide policy guidance and report on DOD's plan to manage contractor personnel who support deployed forces, including procedures for making and documenting decisions regarding contractor personnel, a description of disciplinary and criminal actions brought against contractor employees, an explanation of the legal status of contractor employees engaged in security functions in Iraq after the transfer of sovereignty to Iraq, and a plan for the collection of data on the number and type of contractors, the monetary value of the contracts, the number of casualties, and the number of defense contractor personnel in Iraq. Congress has expressed concern over another management issue raised by the Air Force's and Boeing's handling of the KC-767 tanker aircraft leasing contract, which resulted in the resignation of two senior Air Force officials and the conviction of a high-ranking Air Force civilian acquisition executive. Congressional hearings, especially in the Senate, are likely to focus on the DOD investigation into this matter; the DOD review is scheduled to be completed by mid-January 2005. In carrying out its oversight responsibilities on this and other matters, the 109th Congress will face challenges as DOD accounts for its contracting actions and managerial results.

CRS Report RL30392, *Defense Outsourcing and the OMB Circular A-76 Policy*, by Valerie Bailey Grasso.

CRS Report RL32229, *Iraq: Frequently Asked Questions about Contracting*, by Valerie Bailey Grasso.

International Trade and Finance

Overview

[William H. Cooper, Specialist in International Trade and Finance (7-7749)]

The 108th Congress completed a very full trade agenda with the passage of legislation to implement U.S. free trade agreements (FTAs) with Australia, Chile, Singapore, and Morocco; to broaden the tariff preferences for sub-Saharan African countries under the African Growth and Opportunities Act (AGOA III); to comply with two adverse World Trade Organization (WTO) determinations by repealing the Extraterritorial Income (ETI) exclusion benefit for exporters and repealing the 1916 Antidumping Act; to authorize the President to grant Armenia and Laos permanent normal trade relations (PNTR) status; and to reauthorize the Overseas Private Investment Corporation (OPIC).

The 109th Congress is expected to face a trade agenda that will be at least as extensive. Early in 2005, President Bush is expected to request that his authority to negotiate trade agreements under expedited congressional approval (trade promotion authority), be extended for two years beyond its June 30, 2005 expiration date. Such a request would happen automatically unless either chamber passes a resolution of disapproval. In addition, the President is expected to send Congress legislation to implement the U.S. free trade agreement (FTA) with Bahrain early in the first session, and may also send legislation to implement the FTA with five Central American countries (CAFTA), and possibly the Dominican Republic if a dispute over a recent Dominican tax placed on high-fructose syrup drinks can be resolved. The Bush Administration will likely complete FTA negotiations with several other countries and launch negotiations with still others in the near future.

Before the end of its first session, the 109th Congress will have to decide whether to introduce and act on a joint resolution to disapprove continued U.S. participation in the WTO. Furthermore, the 109th Congress may consider whether to comply with a WTO dispute resolution against the Continued Dumping and Subsidy Offset Act (CDSOA), also known as the "Byrd Amendment" after its chief sponsor, Senator Robert Byrd.

On January 1, 2005, multilateral quotas on trade in textiles and apparel will have permanently expired. Congress may grapple with the potential impact of the expected increased competition from Chinese apparel on U.S. producers and on U.S. suppliers in developing countries that may not be able to compete with Chinese manufacturers. Congress will also likely face issues related to the impact of a depreciating dollar and U.S. trade deficits. The 109th Congress may also consider reauthorization of the long-expired Export Administration Act.

CRS Report RL32698, *Trade Legislation in the 108th Congress*, by Raymond Ahearn.

CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper.

CRS Issue Brief IB10123, *Trade Negotiations in the 109th Congress*, by Ian Fergusson and Lenore Sek.

CRS Report RL31974, *Trade Agreements: Requirements for Presidential Consultations, Notices, and Reports to Congress Regarding Negotiations*, by Vladimir N. Pregelj.

Renewal of Trade Promotion Authority [Lenore Sek, Specialist in International Trade and Finance (7-7768)]

Under Title XXI of the Trade Act of 2002 (P.L. 107-210) as amended, Congress approved expedited procedures (no amendment, limited debate, and an up or down vote) for legislation to implement trade agreements, as long as the trade agreements were entered into before July 1, 2005 and other conditions were met. This congressional consent to expedited procedures, along with provisions setting forth negotiating objectives and the authorization to enter into agreements, is called “trade promotion authority” (TPA). The Trade Act of 2002 also provided for a two-year extension of TPA, and an issue for the 109th Congress is whether or not to disapprove the two-year extension.

Under the Trade Act of 2002, the two-year extension is automatic as long as two conditions are met. First, the President must request the extension by April 1, 2005. Together with the request, the President must submit information such as a description of progress in negotiations and the reasons why the extension is needed to complete the negotiations. This information will indicate to Congress what trade agreements the President plans to conclude in the additional two years and whether such trade agreements might further U.S. trade policies.

A second condition for the two-year extension of TPA is that neither the House nor the Senate adopt an extension disapproval resolution before July 1, 2005. While any Member may introduce a disapproval resolution, it is not in order for the Senate to consider any extension disapproval resolution not reported by the Committee on Finance, or for the House to consider any extension disapproval resolution not reported by the Committee on Ways and Means and the Committee on Rules.

If neither the House nor the Senate adopts a disapproval resolution, the President is automatically granted the two-year extension of TPA. The extension could cover trade agreements reached in the current Doha Round of WTO negotiations and possibly additional free-trade agreements. If at least one chamber of Congress, however, adopts a disapproval resolution, then any trade agreements entered into after June 30, 2005 would be considered for implementation under normal legislative procedures. A vote on TPA extension will be seen as an indication of congressional support for, or opposition to, the President’s trade agenda.

CRS Report RL31844, *Trade Promotion Authority (Fast-Track Authority for Trade Agreements): Background and Developments in the 107th Congress*, by Lenore Sek.

CRS Report RS21004, *Trade Promotion Authority and Fast-Track Negotiating Authority for Trade Agreements: Chronology of Major Votes*, by Carolyn C. Smith.

CRS Report 97-896, *Why Certain Trade Agreements Are Approved as Congressional-Executive Agreements Rather Than as Treaties*, by Jeanne J. Grimmett.

Free Trade Agreements/Implementing Legislation

Ian Fergusson, Analyst in International Trade and Finance (7-7-4997) and J. F. Hornbeck, Specialist in International Trade and Finance (7-7782)]

Congress may be asked to approve one or more free trade agreements (FTAs) in the first months of the 109th Congress. These FTAs are an important component of the Bush Administration's policy of competitive liberalization, in which simultaneous negotiations are undertaken to advance trade liberalization at the bilateral, regional, and multilateral levels. FTAs have been signed with the nations of the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), the Dominican Republic, and Bahrain. Other negotiations are in progress with Panama, the Andean nations of Colombia, Ecuador, and Peru, the Southern African Customs Union (South Africa, Botswana, Lesotho, Namibia, and Swaziland), and Thailand. In addition, Oman, the United Arab Emirates, Egypt, Taiwan, New Zealand and South Korea have been put forward as possible partners for future negotiations. The United States remains engaged in negotiations for a Free Trade Area of the Americas (FTAA) with 34 other nations of the hemisphere. The negotiations, however, have been stalemated by disagreements between the United States and Brazil over the scope of the negotiations, specifically whether to negotiate agricultural subsidies, intellectual property, investment, and services.

The Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) may prove to be the most contentious of the agreements. On May 28, 2004, the United States and the Central America Common Market (CACM) countries signed the U.S.-Central America Free Trade Agreement (CAFTA). On August 5, 2004, the Dominican Republic, having completed separate negotiations with the United States, was added to the agreement (the DR-CAFTA) in a subsequent signing by all parties. In the United States, the DR-CAFTA has been controversial, with concerns over (1) allegations of weak enforcement of labor standards in some countries, and (2) the economic effects on all countries of liberalizing trade of the region's major export sectors, agriculture, textiles, and apparel. The agreement became more controversial in September 2004, when the Dominican Republic passed a revenue bill that included a 25% tax on beverages containing high-fructose corn syrup. The USTR accused the Dominican Republic of breaching its commitments under both the WTO and the proposed DR-CAFTA, and has recommended that the Dominican Republic be excluded from the implementing legislation unless the tax is dropped. Congress appears divided over this option, as the Dominican Republic was originally included

to obtain additional support for CAFTA. Thus, the timing of implementing legislation for this FTA remains in doubt.

The United States and Bahrain signed an FTA on September 14, 2004 and implementing legislation may be submitted early in the 109th Congress. While not significant in economic terms, the agreement rewards Bahrain for economic liberalization and political friendship. It is also considered a step toward the creation of a Middle East Free Trade Agreement by 2013. In the region, the United States currently has FTAs with Jordan, Israel, and Morocco. The Bahrain agreement may be considered individually or it may be combined with consideration of other agreements.

In debating implementing legislation, Congress may, explicitly or implicitly, question several aspects of the Administration's trade policy. Do these agreements fulfill the obligations of trade promotion authority? Do the DR-CAFTA's labor provisions reflect the intention of Congress? Do these FTAs serve broader U.S. trade and foreign policy interests? Do these FTAs provide an economic benefit commensurate with the negotiating resources needed to conclude them, or would resources be better spent negotiating in multilateral or large regional forums such as the WTO or FTAA? Do geopolitical considerations have a disproportionate influence on the selection of FTA partners, and if so, is that justified? Of primary importance to legislators, however, may be the manner in which a potential trade agreement affects the employment or business prospects of constituents. Individual members will have to decide whether the threat of lost jobs, and lost market-share to import-competing industries, or cuts in agriculture subsidies outweigh the prospect of new employment or new markets for exporters.

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

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the U.S.-Central America Free Trade Agreement (CAFTA)*, coordinated by K. Larry Storrs.

CRS Report RL32638, *Middle East Free Trade Area: Progress Report*, by Mary Jane Bolle.

CRS Report RS21846, *Proposed U.S.-Bahrain Free Trade Agreement*, by Martin A. Weiss.

CRS Report RL31870, *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration*, by J. F. Hornbeck.

CRS Report RS21868, *U.S.-Dominican Republic Free-Trade Agreement*, by Lenore Sek.

WTO-Related Legislation

[Lenore Sek, Specialist in International Trade and Finance (7-7768), Jeanne J. Grimmatt, Legislative Attorney (7-5046) and Vladimir N. Pregelj, Specialist in International Trade and Finance (7-7747)]

During the first half of 2005, the 109th Congress might vote on whether the United States should continue as a member of the World Trade Organization (WTO). The provisions on such a vote are found in section 125 of the 1994 legislation that implemented the Uruguay Round of multilateral trade agreements (P.L. 103-465). Under that act, the U.S. Trade Representative (USTR) must submit to the Congress an annual report on the activities of the World Trade Organization, and every fifth year a more comprehensive report that includes a broad analysis of the costs and benefits of continued U.S. participation in the WTO. The deadline for the next of these comprehensive reports is March 1, 2005.

Once Congress receives this comprehensive report, any Member of Congress is permitted to introduce a joint resolution withdrawing the approval of the United States from the agreement establishing the WTO. Such a resolution is privileged and has to be introduced within 90 days after Congress receives USTR's report. In 2000, the House voted down a disapproval resolution by a margin of 363-56. While any such vote in the 109th Congress may have symbolic importance, it also offers Congress an opportunity to debate the costs and benefits of U.S. participation in the WTO. In this context, congressional frustration with U.S. trading partners over disputes involving agriculture, aerospace, and softwood lumber could be manifested in floor debates and statements.

The 109th Congress also might face votes related to trade disputes in the WTO. Of note, the United States lost a case against a U.S. law that redistributes U.S. antidumping and countervailing duties to domestic parties (the "Byrd Amendment"), and the WTO has authorized other countries to impose duties on U.S. products. The Congress might monitor this case to observe the consequences to U.S. industries, and it might consider whether or not to change the disputed law.

CRS Report 98-928, *The World Trade Organization: Background and Issues*, by Lenore Sek.

CRS Report RL32014, *WTO Dispute Settlement: Status of U.S. Compliance in Pending Cases*, by Jeanne J. Grimmatt.

CRS Report RS217763, *WTO Dispute Settlement: Stages and Pending U.S. Activity Before the Dispute Settlement Body*, by Todd B. Tatelman.

CRS Report RS21918, *United States' Withdrawal from the World Trade Organization: Legislative Procedure*, by Vladimir N. Pregelj.

CRS Report RL32645, *The Doha Development Agenda: The WTO Framework Agreement*, coordinated by Ian F. Fergusson.

CRS Report RL32700, *Seeking Withdrawal of Congressional Approval of the WTO Agreement: Background, Legislative Procedure, and Practical Consequences*, by Vladimir N. Pregelj.

CRS Report RL32053, *Agriculture in WTO Negotiations*, by Charles E. Hanrahan.

Trade Deficit Concerns

[James Jackson, Specialist in International Trade and Finance (7-7751) and Wayne Morrison, Specialist in International Trade and Finance (7-77667)]

In 2004, the nation's current account, a broad accounting of the net difference between the goods and services the nation exports and imports annually, will surpass the record \$500 billion deficit recorded in 2003. The cumulative amount of successive deficits is raising concerns about how large a current account deficit the United States can finance through inflows of foreign capital. Prospects that foreign investors could reduce their purchases of U.S. Treasury securities and other U.S. assets (portfolio investments) likely will increase pressures on the 109th Congress to address the federal government's budget deficit, because the inflows are bridging the gap between domestic supplies of and demand for capital. Foreigners are now major investors in U.S. corporate stocks and bonds and hold some 45% of publicly traded U.S. Treasury securities. At some point, foreign investors may become uncomfortable with the large share of U.S. assets in their holdings and reduce their purchases of U.S. assets.

Given current U.S. economic policies, a reduction in foreign capital inflows would have a wide-ranging impact on the U.S. economy. These capital inflows likely are keeping U.S. interest rates below the level they would have reached without the foreign capital and they allow the United States to spend beyond its means, including financing its current account deficits. Congress likely would find itself embroiled in any financial crisis arising from relatively lower levels of foreign capital inflows through its direct role in conducting fiscal policy and in its indirect role in the conduct of monetary policy through its supervisory responsibility over the Federal Reserve.

Capital flows also affect the international exchange value of the dollar. Demand for U.S. assets, such as financial securities, translates into demand for the dollar, since U.S. securities are denominated in dollars. As demand for the dollar rises or falls according to overall demand for dollar-denominated assets, the value of the dollar changes. Over the past three years, the average exchange value of the dollar has fallen by about 15 percent, mostly against the euro and other currencies that float freely.

A sustained change in capital inflows and the value of the dollar would directly affect the U.S. current account balance by altering the level of U.S. exports and imports of goods and services, which in turn could affect a broad range of sectors in the U.S. economy. Although foreign trade is still a relatively small part of the overall U.S. economy, changes in the trade accounts alter the composition of jobs in the economy and can affect the overall level of economic activity. Also, reduced levels of foreign capital inflows can have a negative effect on the rate of economic growth by reducing the rate of U.S. business investment and foreign direct investment in U.S. businesses. Such events could increase pressure on Congress to pursue policies that promote U.S. exports and to confront more aggressively those nations that attempt to deflect economic adjustments by supporting their currencies through official purchases of U.S. securities, thereby supporting the exchange rate of the dollar relative to their own currencies.

In particular, the continued rise in the U.S.-China trade imbalance and complaints from U.S. manufacturing firms and workers over the competitive challenges posed by cheap Chinese imports have led to increased pressure on the Bush Administration to take a more aggressive stance against “unfair” Chinese trade policies, including China’s policy of pegging its currency (the yuan) to the U.S. dollar. Many Members of Congress contend that the peg constitutes a form of “currency manipulation” that is both unfair and detrimental to U.S. economic interests because it artificially lowers the prices of Chinese exports to the United States while making U.S. exports to China more expensive. China has refused to alter the peg, arguing that such a move would destabilize the economy, especially because of the poor state of China’s banking system. In October 2003, the Bush Administration established a “joint technical cooperation program” to advise China on financial market reforms in the hope that such reforms will induce China to move more quickly towards adopting a floating exchange rate system. The Bush Administration, however, is constrained somewhat in the extent to which it is willing to press the issue, since the Chinese are major purchasers of U.S. Treasury securities and an abrupt change in this role could have far-ranging implications for the economy.

CRS Report RS21951, *Changing Causes of the U.S. Trade Deficit*, by Marc Labonte and Gail Makinen.

CRS Report RL32165, *China’s Exchange Rate Peg: Economic Issues and Options for U.S. Trade Policy*, by Wayne Morrison.

CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne Morrison.

CRS Report RL32461, *Outsourcing and Insourcing Jobs in the U.S. Economy: Evidence Based on Foreign Investment Data*, by James K. Jackson.

CRS Report RL32462, *Foreign Investment in U.S. Securities*, by James K. Jackson.

CRS Report RS21857, *Foreign Direct Investment in the United States: An Economic Analysis*, by James K. Jackson.

End of Textile and Apparel Quotas

[Bernard A. Gelb, Specialist in Industry Economics (7-7738) and Vivian C. Jones, Analyst in International Trade and Finance (7-7823)]

Attempts to resolve issues between textile and apparel exporters and importers over the years resulted in a number of agreements (bilateral and multilateral) that restricted the amounts of textiles and apparel traded and did not adhere to the basic rules of the General Agreement on Tariffs and Trade. Nearly all such agreements were combined in 1974 into a “temporary” Multifibre Arrangement (MFA) that applied a common set of rules. The Agreement on Textiles and Clothing (ATC), reached in 1994 during the Uruguay Round of trade negotiations, ended the MFA by establishing a ten-year transition period for producers in developed countries to plan for and adjust to intensified competition from developing countries. Quotas, which effectively raise the prices of goods, were scheduled to be eliminated in four stages. The final stage, covering the most import-sensitive and largest group of products, is effective January 1, 2005, when textile and apparel trade will be subject to the same

rules governing other products. The ending of quotas will remove a hindrance to industries in the lowest-labor-cost nations to win markets from their counterparts in other developing countries and in industrialized countries. Countries that had some assured market access along with restricted quantities will face more open competition, particularly in apparel assembly, which is labor-intensive.

Imports of textiles and apparel into the United States began to surge in the early 1960s and have risen very rapidly in the last 20+ years — winning large portions of U.S. markets. Employment in U.S. textile and apparel manufacturing has decreased by about 50% and 60%, respectively, since 1980, due to increases in imports and industry productivity. Textile employment has declined less rapidly partly because U.S. tariff preference programs generally require U.S. fiber and fabric to be used in the apparel that is exported to the United States duty free. With large increases in U.S. imports of textile and apparel expected to result from the lower prices of imported goods and entry of previously denied goods, it is probable that employment in U.S. textile and apparel manufacturing will fall further. Textile and apparel industry sources predict job losses in the hundreds of thousands. The *overall* U.S. economy arguably will benefit, however, partly from the extent to which textile and apparel prices fall or do not rise as much as they would with quotas.

Developing countries were the main proponents of the ATC, and most of the group initially was expected to gain from the quota phase out. Now, it is widely expected, and feared by many, that a few — led by China and India — will be major beneficiaries at the expense of the others, although countries that are geographically closer to the major consuming markets — North America and the European Union — are likely to be less negatively affected. Advantages of countries covered by U.S. tariff preferences will be diminished. A number of the countries concerned about their prospective loss of markets and the negative impact of on their economies have appealed to the WTO for measures that would ease the transition.

A textile-specific safeguard provision in China's WTO accession agreement allows the United States and other Member countries to impose temporary quotas on textile and apparel from the People's Republic of China if they determine that Chinese-origin imports of a product are causing "market disruption." In effect through December 31, 2008, the provision requires China to hold its shipments of the goods in question at a level no greater than 7.5% more than the quantity that entered during the previous year. The quotas may continue for a maximum of a year unless reapplied for, or unless an agreement is reached between the parties. The United States imposed safeguard quotas on three groups of products on December 23, 2003, and on socks on October 28, 2004. Several additional industry petitions for safeguards are pending, as well as renewal requests for the safeguards due to expire in late December 2004, according to textile and apparel industry sources. Almost all of the petitions recently submitted pertain to products presently under quota restrictions, as the U.S. industry believes the products will be threatened with market disruption once all quotas are lifted in January 2005.

Retailers and other importers of textiles and apparel oppose the safeguards, saying that many U.S. industry job losses are due to technology improvements rather than Chinese competition, and contending that limiting Chinese imports will cause market inefficiencies that will result in higher prices to U.S. consumers. Chinese

officials have voiced displeasure with the imposition of the safeguards and reserved the right to challenge implementation through the WTO dispute settlement process.

In an apparent act of concern over U.S. safeguard implementation and international pressure, China announced on December 12, 2004 that it would increase export tariffs on certain lower-end textile and apparel products by an unspecified amount beginning January 1, 2005, in part to “ensure a smooth transition for textile integration following the end of the quota system.” Many textile interests are skeptical that the duties would be large enough to offset what they believe is a 30 to 40 percent price advantage that China will enjoy over other nations.

CRS Report RL32168, *Safeguards on Textile and Apparel Imports from China*, by Vivian C. Jones.

CRS Report RS20889, *Textile and Apparel Quota Phaseout: Some Economic Implications*, by Bernard A. Gelb.

CRS Report RL31934, *Textile and Apparel Trade Issues*, by Bernard A. Gelb.

Export Administration Act

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In the 109th Congress, there may be continued efforts to rewrite and reauthorize the Export Administration Act of 1979 (EAA). The EAA provides the statutory authority for export controls on sensitive dual-use goods and technologies, items that have both civilian and military applications including those items that can contribute to the proliferation of nuclear, biological, and chemical weaponry. The EAA, which originally expired in 1989, periodically has been reauthorized for short periods, with the last incremental extension expiring in August 2001. At other times, the export licensing system created under the authority of EAA has been continued by the invocation of the International Emergency Economic Powers Act (IEEPA). In the 108th Congress, H.R. 55 was introduced on January 7, 2003, but no action was taken on the bill. In addition, the House has attempted to make incremental changes to the export licensing system through the National Defense Authorization Act. In both years, these provisions were removed in conference after facing opposition from the Senate and the Administration.

In the 107th Congress, S. 149 was passed by the Senate on September 6, 2001; a companion bill, H.R. 2581, was heavily amended to reflect the national security concerns of members of the House International Relations Committee and House Armed Services Committee. Although approved by both committees, this bill was not considered by the full House. The Administration publicly supported S. 149.

The debate of dual-use export controls ultimately becomes one of choosing the right balance between national security concerns and commercial considerations. Those who claim the current system does not adequately address national security concerns maintain that it compromises national security by failing to prevent the spread of dual-use technologies and goods to countries suspected of participating in the proliferation of weapons of mass destruction or supporting international terrorism. In their opinion, foreign countries have no right to import U.S. technology, but rather such imports are a privilege that should take into account other U.S. policy

interests, including nuclear non-proliferation, human rights, and suppression of terrorism. They contend that export controls can be effective because the United States possesses advantages in high-technology areas such as encryption, high-powered computing, synthetic materials, specialized manufacturing and testing equipment, and precision machine tools that cannot be replicated overseas.

Other observers maintain that current export controls disadvantage U.S. business by subjecting exports of goods and technology to cumbersome and ineffective licensing procedures that cede sales and market share to overseas competitors that do not face such a comprehensive control regime. They maintain that most technology cannot be controlled and is available from foreign sources. Furthermore, they assert that it is necessary to sell current technology overseas in order to provide the funds for research and development necessary to develop new technology vital to U.S. security interests and to remain competitive in the future.

CRS Report RL31832, *The Export Administration Act: Evolution, Provisions, and Debate*, by Ian F. Fergusson.

CRS Report RL31175, *High-Performance Computers and Export Control Policy: Issues for Congress*, by Glenn McLoughlin and Ian F. Fergusson.