

CRS Report for Congress

Foreign Affairs, Defense, and Trade: Key Issues for the 110th Congress

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Summary

The 110th Congress will face a number of pressing foreign affairs, defense, and trade issues in the opening days of its tenure. This report identifies major issues most likely to be on the legislative agenda, discusses critical policy choices at stake, and summarizes some of the major alternatives that Congress may consider. The report lists Congressional Research Service reports that address these issues, and it identifies key analysts and their areas of responsibility.

A major issue confronting the new Congress is what to do in Iraq. The Baker/Hamilton-led Iraq Study Group recommended pursuing a new diplomatic initiative, including negotiations with Iran and Syria; and making the training of Iraqi security forces the primary U.S. military mission. The commission concluded that the United States “could” aim to withdraw all U.S. combat brigades not necessary for force protection by the first quarter of 2008. Congress faces an evaluation of these recommendations and a decision as to what its role should be in implementing these or other new policies. Supplemental appropriations for Iraq and Afghanistan may be the initial vehicle for debate over a new course in Iraq.

U.S. and allied progress in Afghanistan may also be among the key issues in the 110th Congress along with international counter-terrorism, proliferation of weapons of mass destruction, regional geopolitical dynamics, and trade developments. China’s rise is reshaping global economic relations and is affecting security dynamics in Asia and around the globe. The ongoing fight against terrorism, particularly in the Afghanistan-Pakistan border region, and efforts to dissuade or restrain Iran and North Korea from pursuing nuclear weapons programs are key issues for consideration, as is the Israel-Palestinian conflict.

Defense spending, and particularly budgeting for operations in Iraq and Afghanistan, will also be one of the major issues facing the 110th Congress. Congress may be asked to consider large increases in funding for the Army, and it faces a potentially difficult tradeoff between increases in the size of the Army and funding for major weapons programs. Other defense issues include the implementation of recent base closure plans, the status of intelligence reform, pay and benefits of military personnel, and the role and structure of National Guard and Reserve forces.

Trade issues have become increasingly controversial in recent years, and may well remain so as many Members grapple with the real and perceived effects of globalization. Many Members have concerns about instances of lost jobs and lower wages, the growing income gap in the United States, and about burgeoning U.S. trade deficits. Debate over trade policy could be launched with the scheduled expiration on July 1, 2007, of the Trade Promotion Authority (TPA). TPA is the authority that Congress has delegated to the President to negotiate reciprocal trade agreements that receive expedited congressional consideration. Congress’s decision on TPA will have major implications for pending negotiations, and for U.S. participation in the Doha Development Agenda (DDA) negotiations in the World Trade Organization (WTO).

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Foreign Affairs, Defense, and Trade: Key Issues for the 110th Congress

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

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

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A number of challenging issues in foreign, defense, and trade policy are likely to confront the 110th Congress, starting with what the Baker/Hamilton-led Iraq Study Group (ISG) calls the “grave and deteriorating” situation in Iraq. In early 2007, the Administration is expected to ask for supplemental appropriations for military operations in Iraq and Afghanistan and to enhance social and political stability, democratization, and reconstruction in those countries. After Iraq, other high priorities will be the continuing fight against terrorism and efforts to dissuade or restrain Iran and North Korea from pursuing nuclear weapons programs. Congress will also consider a number of Free Trade Agreements (FTAs) and whether to extend presidential Trade Promotion Authority (TPA). With both chambers set to pass from Republican to Democratic control, the 110th Congress is likely to intensify its oversight over these and other Administration policies and activities.

As the 110th Congress convenes, the issue that overshadows all others is what to do in Iraq. Although not all Members agree entirely with the ISG’s grim assessment of the situation in Iraq, the predominant issue in Congress no longer seems to be whether to stay the course, but what to do differently. A key corollary question for Congress is what its role should be in redirecting policy.

A key recommendation of the ISG calls for a major U.S. diplomatic initiative throughout the region to help stabilize the deteriorating situation in Iraq. The group’s report proposes U.S. diplomatic engagement with Iran and Syria, among others, and intensified U.S. efforts to help resolve the Israel-Palestinian conflict and the crisis in Lebanon. The 110th Congress may want to consider to what extent it supports this recommendation and what, if any, legislative measures might be called for to promote it.

Among the central recommendations of the ISG are to make training of Iraqi security forces the primary U.S. military mission and to aim to withdraw all U.S. combat brigades not necessary for force protection by the first quarter of 2008. Congress faces an evaluation of these recommendations and a decision as to what, if any, legislative measures might be helpful to promote these or other policies.

Following that, a central issue may be whether Congress should insert any specific, enforceable policy prescriptions into upcoming legislation to provide supplemental funding for the war. In early February, the Defense Department is expected to request supplemental appropriations to cover costs of military operations in Iraq and Afghanistan for the remainder of FY2007. During the war in Vietnam, Congress frequently debated amendments to defense spending bills to reduce troop strength or to cut off funding for U.S. military operations. Congress finally approved a funding cutoff in 1973. Though Congress may not be inclined to go so far in Iraq, there may well be support for linking funding to achievement of political benchmarks, such as those that the ISG laid out. Some may propose a specific timetable for withdrawing forces. Alternatively, there has been some support in Congress for adding troops in Iraq.

Congressional action on the FY2007 supplemental appropriations bill may also be the first round of what may be an ongoing debate in the 110th Congress over the preparedness of U.S. military forces and the sufficiency of planned funding for military personnel, training, and equipment. In recent years, Congress has provided progressively larger amounts of money for war-related costs in annual supplemental appropriations bills as well substantial and growing amounts in regular defense budget requests. In FY2006 Congress provided over \$530 billion for the Department of Defense, of which about \$120 billion were additional funds for the war. The 109th Congress also approved a “down payment” of \$70 billion for war costs in FY2007, of which almost \$25 billion was to repair and replace Army and Marine Corps equipment lost or worn down by the war.

Now it appears that the Army, in particular, has toted up a much larger bill than had earlier been expected as the cost of equipping and reorganizing its forces to prepare, not only for operations in Iraq and Afghanistan, but also for possible future operations abroad. Initial reports are that the Army and the other services have requested an additional \$125-130 billion in war-related expenses, which would bring the total for FY2007 to almost \$200 billion, although it is not yet known how much of that the White House will request from Congress. For Congress, a central issue is how to ensure adequate readiness while also maintaining some degree of fiscal discipline. A key aspect of that issue is how to manage budgetary tradeoffs between pressures to add to the size of the Army and Marine Corps and also preserve sufficient funds to modernize military forces in the longer term.

In addition to Iraq and Afghanistan, other central foreign policy issues facing the Administration and 110th Congress are how best to deal with the challenges posed by the nuclear activities of North Korea and Iran. In 2007, there is likely to be a good deal of political and diplomatic activity regarding both countries’ nuclear programs. The 110th Congress may exercise oversight of Administration conduct in this area and may address aspects of the issue more directly through legislative action.

European issues that the 110th Congress may address include NATO’s role in Afghanistan, the status of Kosovo, and relations with Russia. NATO’s expanding engagement in Afghanistan is the alliance’s largest and most problematic military operation to date. There is controversy over restrictions some allies have placed on the role of their forces there. The disputed status of Kosovo is set to be resolved in early 2007, possibly in some form of independence. Russia presents a complex set

of challenges and opportunities for the United States, particularly with regard to its policies toward neighboring states and the implications of its growing influence as an energy supplier for Europe.

Security issues in Asia that may draw the attention of the 110th Congress include flashpoints along the Taiwan Strait, on the Korean Peninsula, between India and Pakistan, and along the Pakistani border with Afghanistan, as well as terrorist activity in Indonesia, the Philippines, India, and Pakistan. Two other long-term trends in Asia that may warrant Congressional attention are the rise of China and its increasing influence in the region and globally and increasingly negative attitudes toward the United States, particularly among Southeast Asian nations with large Muslim populations and in South Korea.

Legislative and oversight attention to Latin America and the Caribbean in the 110th Congress will likely focus on continued counternarcotics efforts, especially in the Andean region; potential immigration reform efforts as well as efforts to increase cooperation on border security, which have been key issues in relations with Mexico; efforts to deal with threats to democracy in such nations as Venezuela as well as the rise of leftist populism in several Latin American countries, and debate over the best means to foster political change in Cuba.

Key U.S. policy issues pertaining to Africa are likely to center on efforts to promote peace and security in the region; counter-terrorism initiatives; bilateral military cooperation and training in support of international peacekeeping; the programmatic focus, funding levels, and objectives of diverse U.S. assistance efforts, with a particular emphasis on fighting the HIV/AIDS pandemic; and promoting democracy, human rights, trade, and market-driven economic growth.

In January 2006, Secretary of State Rice announced a major foreign policy initiative that she called Transformational Diplomacy, "...a bold diplomacy to match the President's bold mission of supporting democracy around the world with the ultimate goal of ending tyranny in our world." Pursuant to this goal, State Department personnel are to be shifted largely from Europe and Washington, D.C. to designated critical locations in Africa, South Asia, East Asia, and the Middle East. They are to be trained in public diplomacy skills and encouraged not merely to report on the country in which they are posted, but to promote democratic principles there. This initiative will likely require increased funding for the foreign operations budget. The 110th Congress may seek to exercise oversight on how the money is spent, whether transformational diplomacy is effective, and how foreign governments respond to this U.S. promotion of democracy in their countries.

Trade issues have become increasingly controversial in Congress during the last few years. This is likely to continue to be the case during the 110th Congress as many Members grapple with the real and perceived effects of globalization and how to balance the benefits and costs of trade liberalization. Many Members of Congress have raised concerns over lost jobs and lower wages, over the growing income gap in the United States, over the burgeoning U.S. trade deficits with trading partners, especially China, and the undervaluing of China's currency. While mainstream economists generally assert that trade policy has a very limited role in these areas, for

many Members the trends serve as backdrop to a debate on the shape and conduct of U.S. trade policy.

That debate could be launched early in the 110th Congress with the scheduled expiration on July 1, 2007, of the Trade Promotion Authority (TPA). TPA is the authority that the Congress has delegated to the President to negotiate reciprocal trade agreements that receive expedited Congressional consideration (limited debate and no amendments). Under this authority, the Bush Administration completed and the Congress approved free trade agreements with Chile, Singapore, Australia, Morocco, the Dominican Republic, Central American countries, Bahrain and Oman. Also, the Administration signed agreements with Colombia and Peru and announced it would send implementing legislation for these agreements for Congressional approval under the TPA procedures.

If the President requests renewal of TPA, Congress would face a decision of whether to accede to his request and, if so, what form the new authority should take. Congress's decision could have major implications for pending FTA negotiations, such as those with Malaysia, South Korea, and Panama, and for U.S. participation in the Doha Development Agenda (DDA) negotiations in the World Trade Organization (WTO). The debate over TPA renewal and its outcome could have major implications for U.S. trade policy as a whole and for the working relationship between Congress and the President on trade for the foreseeable future.

Policy Priorities

Iraq and Afghanistan Overview

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

Current U.S. political and military engagements in both Afghanistan and Iraq are products of the September 11, 2001 attacks on the United States. Afghanistan under the Taliban hosted the Al Qaeda leadership at the time of the attacks. The Administration and some Members of Congress perceived Iraq as a sponsor of international terrorism and intent on building weapons of mass destruction (WMD) that could conceivably be transferred to Al Qaeda or other terrorist groups. However, the September 11 Commission report found no evidence of an "operational" relationship between Saddam's regime and Al Qaeda.

U.S. forces are engaged in combat and stabilization missions in both Afghanistan and Iraq, years after the removal of the Taliban and Saddam Hussein regimes, respectively. Of the two missions, Iraq is far more troubled, with the number of U.S. service members killed now exceeding 2,880 and sectarian violence now surpassing the Sunni Arab-led insurgency as the key threat. In Afghanistan, the Taliban movement has displayed resiliency and resurgence in 2006 as the primary stabilization mission is being turned over to NATO peacekeeping forces. Violence continues in both countries despite the completion of U.S.-designed political transition processes, which culminated in Iraqi and Afghan national elections.

Situation in Iraq. [Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612)] Operation Iraqi Freedom overthrew Saddam Hussein's regime, but Iraq remains unstable because of Sunni Arab resentment and a related insurgency. These problems are compounded by Sunni-Shiite violence that some believe is a "civil war" — a term that the Bush Administration says does not apply to the Iraq violence. President Bush, in a series of several speeches since 2005, has asserted that U.S. policy is showing important success, demonstrated by two elections (January and December 2005) that chose an interim and then a full-term parliament and government; a referendum that adopted a permanent constitution (October 15, 2005); progress in building Iraq's security forces; and economic growth. He has maintained that U.S. forces should remain in Iraq until Iraq's elected government is able to defend itself. While continuing to build, equip, and train Iraqi security units, the Administration has worked to include more Sunni Arabs in the power structure, particularly the security institutions: Sunnis were dominant during the regime of Saddam Hussein and previous Iraqi regimes, but many now feel marginalized by the newly dominant Shiite Arabs and Kurds. President Bush has said he believes that, over the longer term, Iraq will become a model for reform throughout the Middle East and a partner in the global war on terrorism.

Mounting U.S. casualties and financial costs — without clear signs of security progress — have intensified a debate within the United States over the wisdom of the invasion and whether to wind down U.S. involvement without completely accomplishing U.S. goals. Several senior U.S. military leaders have begun to express less optimism about the situation in Iraq and about the progress of standing up competent and effective Iraqi Security Forces (ISF), a pillar of the Administration efforts to turn over more responsibility to Iraqis. A reported memo on Iraq to President Bush by National Security Adviser Stephen Hadley, drafted in November 2006 and quoted in the *New York Times* (November 29, 2006), expressed doubts about Iraqi Prime Minister Nuri al-Maliki's willingness or ability to curb Shiite sectarian militias that are said to be targeting Sunni Arabs and fueling a cycle of retaliatory sectarian violence that has gripped the country.

Debates over Iraq policy options were held in the 109th Congress and, in light of the results of the November 2006 mid-term elections, will likely continue in the 110th Congress. Some in Congress believe the U.S. mission in Iraq is not progressing and that major new initiatives are required. Some believe that U.S. counter-insurgent operations are hampered by insufficient U.S. troop levels. Others maintain that sectarian violence is placing U.S. forces in the middle of an all out civil war in Iraq and that setting a timetable for withdrawal might force compromise among Iraqi factions. Others believe that a U.S. move to withdraw might undercut popular support for the insurgency. Some Members maintain that the U.S. approach should focus not on counter-insurgent combat, but on reconstruction and policing of towns and cities cleared of insurgents, including neighborhoods of Baghdad, an approach the Administration has adopted. Still others focus on political restructuring such as creating three autonomous regions for Iraq's three major communities, Sunni Arabs, Shiite Arabs, and the mostly-Sunni Kurds. On December 7, 2006, the Senate Armed Services Committee held a hearing on the findings of the congressionally-created Iraq Study Group chaired by former Secretary of State James Baker and former Congressman Lee Hamilton. The Iraq Study Group's recommendations included engagement of Iraq's neighbors, including Iran and Syria, and the gradual

replacement of U.S. combat operations by stepped up U.S.-led training and advising of Iraq's security forces.¹ The 110th Congress is likely to hold more extensive hearings on these and other options.

U.S./International Military Operations. [Steve Bowman, Specialist in National Defense (7-7613)] U.S. military operations in Iraq comprise several efforts. The 147,000+ troops in Iraq are engaged in counterinsurgency operations, training/advising Iraqi Security Forces (ISF), and targeted special operations against terrorist cells. Increasingly heavy emphasis is being placed on improving Iraqi army performance through embedded U.S. advisory teams in Iraqi units. In the face of escalating violence, particularly in Baghdad and Al Anbar province, the nature of future military operations and U.S. troop levels are undergoing intensive scrutiny in the midst of an on-going debate among U.S. military and civilian decision-makers regarding appropriate strategy. While an eventual handover of operations to the ISF remains a consensus objective, opinions vary widely on how and when this can be achieved. Some argue that, given the relatively poor ISF performance to date, at least a substantial short-term increase in U.S. troop levels and intensified counterinsurgency operations are necessary to establish a secure political environment. Critics of this approach believe that the ISF must be strongly encouraged to operate more effectively on their own, and that this will be best achieved by a phased drawdown of U.S. troops over the next year or more, with U.S. forces serving primarily in advisory and rapid reinforcement roles if needed. As the United States considers its military options in Iraq, many of its major coalition allies, including the United Kingdom, Italy, Poland, and Japan have either withdrawn or are projecting a withdrawal of their military forces.

Reconstruction Assistance. [Curt Tarnoff, Specialist in Foreign Affairs (7-7656)] To date, nearly \$35.7 billion in appropriations from all available budget accounts has been targeted at assisting the reconstruction of Iraq. More than \$15 billion of this total has gone toward the training and equipping of Iraqi security forces. About \$10 billion has gone to building Iraqi non-security infrastructure, including schools, hospitals, and oil, water, sanitation, and electric power facilities. Another \$10 billion has been aimed at more traditional forms of economic aid, including providing technical expertise, training, and associated equipment to support health care, democratization, education, civil society, private sector development and government reform. Among the key Congressional concerns at this time is whether, amid reports of waste and mismanagement, the funds already allocated have been employed efficiently and effectively to achieve U.S. objectives. Looking ahead, there are serious concerns regarding the ability of the Iraqi government to sustain U.S.-supported infrastructure projects with the limited financial and managerial resources at its disposal. Continuing security, infrastructure, and other challenges in Iraq may raise pressure for further U.S. economic assistance to make up for anticipated shortfalls in both Iraqi and other donor resources.

¹ The text of the Iraq Study Group report is available at [<http://www.usip.org/isg/>].

CRS Report RL31399, *Iraq: Post Saddam Governance and Security*, by Kenneth Katzman.

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

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

Situation in Afghanistan. [Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612)] Afghanistan's political transition was completed with the convening of an elected parliament in December 2005, but since then insurgent threats to Afghanistan's government have escalated to the point that some experts are questioning the future of U.S. and NATO-led stabilization efforts. In the political process, a new constitution was adopted in January 2004, successful presidential elections were held on October 9, 2004, and parliamentary elections took place on September 18, 2005. The parliament has become an arena for factions that had fought each other militarily for nearly three decades to debate and peacefully resolve differences. Afghan citizens are enjoying new personal freedoms that were forbidden under the Taliban. Women are participating in economic and political life, including as ministers, provincial governors, and senior levels of the new parliament.

Clouding the prior optimism has been the unexpected escalation of the insurgency led by remnants of the former Taliban regime in 2006, after several years in which it appeared the Taliban were mostly defeated. Taliban fighters have conducted several increasingly larger scale attacks on coalition and Afghan security forces in several southern provinces, setting back reconstruction and thwarting efforts to extend Afghan government authority. In addition, narcotics trafficking is resisting counter-measures, and independent militias remain throughout the country, although many have been disarmed. Observers attribute the increased violence to a number of different factors, including popular disappointment at the slow pace of reconstruction, official Afghan corruption, ample funding from narcotics trafficking, the continuing writ of regional faction leaders, the ability of Taliban fighters to find safe haven in neighboring Pakistan, and possible inspiration from and cross-fertilization between Taliban insurgents and Al Qaeda or other fighters coming from the insurgency in Iraq.

The 110th Congress is likely to actively monitor U.S. civilian and military assistance to Afghanistan, amid calls by U.S. and NATO military leaders to accelerate reconstruction as a means of winning over the support of the Afghan population. In FY2006, Congress appropriated over \$3 billion in U.S. civilian and military aid for Afghan stabilization and reconstruction, in both regular foreign aid (P.L. 109-102) and supplemental appropriations (P.L. 109-234). U.S./NATO stabilization measures focus on strengthening the central government and its security forces and on promoting reconstructing while combating the renewed insurgent challenge. The United States and other countries are building an Afghan National Army, deploying a NATO-led International Security Assistance Force (ISAF) that now commands peacekeeping throughout Afghanistan, and running regional enclaves to secure reconstruction known as Provincial Reconstruction Teams (PRTs).

Opium Production and Counternarcotics. [Christopher M. Blanchard, Analyst in Middle Eastern Affairs (7-0428)] Afghan, U.S., and European officials have stated that poppy cultivation and drug trafficking constitute serious strategic threats to the security of Afghanistan and jeopardize the success of post-9/11 counterterrorism and reconstruction efforts there. In spite of ongoing international efforts to combat Afghanistan's narcotics trade, U.N. officials estimate that a record opium poppy crop was produced in Afghanistan during the 2005-2006 season, supplying 92% of the world's illicit opium and reversing a slight reduction that occurred from 2004 to 2005. Narcotics experts describe Afghanistan's opium economy as the backbone of a multibillion-dollar trade that stretches throughout Central and Southwest Asia and supplies heroin to Europe, Russia, and the United States.

Congress has appropriated more than \$1.9 billion for U.S. counternarcotics programs in Afghanistan and surrounding countries since 2001, including several hundred million dollars for the expansion of initial counternarcotics efforts under a new interagency "five pillar" plan that blends eradication, interdiction, alternative livelihood assistance, judicial reform, and public awareness activities. During the term of the 110th Congress, the full effectiveness of this plan's initiatives should become apparent — to date, insecurity in key opium poppy producing areas, delays in building and reforming Afghan institutions, and widespread local Afghan corruption have prevented its full implementation. Congress also has passed legislation requiring several formal reports on the Afghan narcotics trade and U.S. efforts to combat it: most recently, the FY2007 Defense Authorization Act (Section 1025 of P.L. 109-364) required the Administration to submit an updated policy review by December 31, 2006.² Foreign Operations programs are currently operating under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289, as amended) which provides funding at the FY2006 or the House-passed FY2007 level, whichever is less. The continuing resolution expires on February 15, 2007.

U.S./International Military Operations. [Andrew Feickert, Specialist in National Defense (7-7673)] To contribute to stabilization efforts, the United States has approximately 22,100 service members in Afghanistan, with approximately 12,000 of these troops under NATO command as part of NATO's 32,000-strong International Security and Assistance Force (ISAF). The remainder are under U.S. command as part of *Operation Enduring Freedom* (OEF), which is responsible for counterterrorism operations in Afghanistan. The United States had planned to modestly reduce its troop presence in Afghanistan when NATO assumed responsibility for overall Afghan security in the fall of 2006, but aggressive and more sophisticated insurgent operations against coalition forces forestalled this reduction and suggests that U.S. troop reductions are unlikely in the near future. The United States and a few NATO countries such as Great Britain, Canada, and the Netherlands — along with the Afghan National Army (ANA) — have conducted a number of large-scale offensive operations against Taliban insurgents, but the insurgents

² The original policy review was submitted to Congress in October 2005. Report on Counter Drug Efforts in Afghanistan — October 18, 2005, as required by Sec. 7104, Section 207 (b) of the Intelligence Reform and Terrorism Prevention Act, 2004 (P.L. 108-458); House Committee on International Relations, Ex. Comm. 4575.

continue to exert significant influence and presence in a number of Afghan provinces.

Many NATO countries have placed national caveats on how their troops may be used in Afghanistan which limits their utility and creates the need for additional forces that can participate in combat operations. At NATO's Riga Summit in November 2006, progress was made on modifying some of these national caveats, but some maintain that these modifications do little to ease the burden on U.S., British, Canadian, and Dutch forces. U.S. and NATO forces play a limited supporting role in combating Afghanistan's illegal opium trade - the profits from which help to finance the insurgents. Some argue, however, that because of the pervasive nature of the Afghan drug trade and its central role in Afghanistan's rural economy, that aggressive military action without compensating economic efforts could cause more harm than good. Some U.S. and coalition military officials also have spoken out against proposals that could transform combat forces into "drug police" or otherwise undercut counterterrorism and stability operations.

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

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

CRS Report RL33503, *U.S. and Coalition Military Operations in Afghanistan: Issues for Congress*, by Andrew Feickert.

Cost and Budget Issues. [Amy Belasco, Specialist in National Defense (7-77627)] On February 7, 2007, the Administration is scheduled to submit the regular Department of Defense (DOD) budget. The Administration may also request what is reported to be a large FY2007 supplemental for Iraq, Afghanistan and other global war on terror operations plus funds to cover FY2008 war costs as is required by the FY2007 National Defense Authorization. The FY2007 supplemental request would be in addition to \$70 billion that DOD has already received.

The FY2007 Supplemental and FY2008 war cost requests would be in addition to the \$507 billion already appropriated by Congress for Operation Iraqi Freedom (OIF) for Iraq, Operation Enduring Freedom (OEF) for Afghanistan and other global war on terrorism operations and enhanced security for DOD (Operation Noble Eagle) since the 9/11 attacks. That total includes about \$379 billion for Iraq, \$97 billion for Afghanistan and other counter-terror operations, and \$26 billion for enhanced DOD security. Over 90% of these funds were provided in emergency bills that are not subject to spending caps in the annual congressional budget resolutions or to the standard year-long authorization and appropriations process. Two major war cost and budgetary issues that could come up early in 2007 are 1) budgetary levers that Congress could use to affect future troop levels in Iraq; and 2) the validity of the rationale and visibility of FY2007 and FY2008 war cost requests.

Congress may turn to the Vietnam experience to look for ways to affect U.S. policy in Iraq. Although many amendments to reduce or end U.S. military operations in Vietnam were considered, only a half-dozen were enacted that limited or

prohibited the use of funds for military operations during the 1970s. Funding restrictions have generally proven more effective than other tools like the War Powers Act, which has been challenged by the executive branch on constitutional grounds. Examples of key amendments that were enacted or debated include (1) the Hatfield-McGovern amendment rejected by 39-55 on September 1, 1970, that would have limited U.S. troop strength to 280,000 by April 30, 1971, and required that remaining troops be withdrawn by December 31, 1971, unless the president found that up to a 60-day extension was needed in case of a clear and present danger to U.S. troops, or the president submitted a new date for congressional approval (H.R. 17123); and (2) the Fulbright-Aiken and McGovern amendments enacted in 1973 after the January peace accord with Vietnam prohibiting the obligation or expenditure of all past and current funds after August 15, 1973 “to finance directly or indirectly combat activities by United States military forces in or over or from off the shores of North Vietnam, South Vietnam, Laos or Cambodia”(Sec. 108, P.L. 93-52; 87 Stat. 130).

Congress will also be faced with assessing the Administration’s war requests, a task that has been difficult because of piecemeal information about annual costs, and limited information about key factors — such as past and current troop levels — that affect costs. The Iraq Study Group called funding requests for Iraq “confusing” and criticized the fact that it is difficult to identify the amount requested for the Iraq operations. DOD has not provided Congress with an allocation of all previously appropriated funds by operation, i.e. for Iraq, Afghanistan, or other counter-terror operations. War funds are also currently mixed with regular funds during execution, which limits visibility on how funds are ultimately spent and means that the effect of war costs on the deficit can only be estimated.

Congressional leaders have promised increased scrutiny of DOD war costs. Congress may also choose to consider extending the scope of the Special Inspector General from reconstruction to DOD’s military activities rather than relying solely on DOD’s Inspector General or the services’ audit agencies. Echoing frequently expressed Congressional concerns, the Iraq Study Group calls on DOD to include a full year of war costs in DOD’s regular FY2008 budget so as not to circumvent the normal budget process or put pressure on Congress to review requests quickly to ensure monies to support the troops. It is not clear whether DOD will provide Congress with the detailed budget justification called for in the FY2007 National Defense Authorization Act and initially required of the services.

Recent press reports peg service requests for the FY2007 supplemental at \$100 billion to \$160 billion in addition to the \$70 billion already enacted. According to the reports, the President is likely to request an additional \$100 billion, or a total of \$170 billion for FY2007, which would be 45% higher than the previous year.

If troop levels remain at roughly current levels, it is not clear why the FY2007 supplemental should be larger than funding in FY2006. In that case, the FY2007 supplemental would be \$50 billion in addition to the \$70 billion already appropriated. If some combat troops are withdrawn from Iraq in FY2007, as proposed by the Iraq Survey Report, war costs would be expected to decrease. In response to a Congressional request, CBO estimated that war costs would decrease by \$11 billion if 25,000 troops were withdrawn and by \$17 billion if 60,000 troops were withdrawn.

On the other hand, if troop levels were temporarily increased as some have proposed, war costs could increase by several billion.

Some might argue that funding should increase in order to intensify training of Iraqi security forces. Congress has thus far appropriated \$15.4 billion to train Iraqi security forces including \$3.9 billion that is available for FY2007. A three to four-fold expansion of U.S. military personnel embedded with Iraqi forces — as proposed by the Iraq Study Group — would be covered primarily by current military personnel costs though some increase in training monies could also be needed.

On October 25, 2006, Deputy Secretary of Defense England issued new guidance on war costs to the services, requiring them to submit requests based on the “longer war against terror” rather than strictly OIF and OEF operations. In response, the services apparently greatly increased their original requests. Since the long war on terror is DOD’s key mission, it may not be clear why such costs be considered emergency war supplemental spending rather than part of DOD’s regular budget.

Two issues that may be cited as reasons that war costs could be higher in FY2007 are current readiness problems and the cost of reset — the repair and replacement of war-worn equipment. According to various reports, current Army readiness rates have declined to the lowest levels since the end of the Vietnam war with roughly half of all Army units, both active and reserve, at the lowest readiness ratings for currently available units, primarily because of equipment shortages which may affect a unit’s ability to train fully for combat and limit the ability of the United States to respond to other contingencies.

Equipment shortfalls reflect backlogs at maintenance depots as well as possibly ongoing equipment upgrades designed to modularize or standardize and restructure Army and Marine Corps units. As of FY2007, the Army and Marine Corps are fully-funded for their reset requirements, and maintenance backlogs may fall by up to one-half according to recent DOD reports. Together, the two services have already received \$48.6 billion for reset including \$23.7 billion for FY2007. If troop levels fall in FY2008, the Army has estimated that its reset requirements would drop from the \$17.1 billion provided in FY2007 to \$10.5 in the next year with further declines in later years. DOD’s FY2008 reset requirements will presumably reflect assumptions about troop levels.

Readiness problems for reserves reflect primarily personnel shortages as individuals are transferred to fill holes in deploying units, and as some reservists bump up against the 24-month overall limit for mobilization in DOD policy. Some have also raised concerns about whether the military can continue to meet recruitment and retention goals because some active-duty forces are also deploying with less than one year at home to rest and retrain.

It is not clear whether the Administration will submit a full year of war costs with detailed justification as is required by the FY2007 National Defense Authorization Act although the newly-confirmed Secretary of Defense, Bob Gates, stated his willingness to do so. The FY2008 request for war costs will reflect the Administration’s assumptions about troop levels. If troop levels decline so may operational and reset costs though the amount would vary depending on the pace of

withdrawals and whether combat troops remain in the region or are re-deployed to the United States. The Iraq Study Group report does not specify troop levels or deployment location. If Congress wishes to consider these options, the Department of Defense could be asked to identify how costs would change with different troop levels.

CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

U.S. and International Counter-terrorism Efforts

[Raphael Perl, Specialist in International Affairs (7-7664) and John Rollins, Specialist in Terrorism (7-5529)]

Terrorism is a global, national, and transnational phenomenon. Understanding current and future terrorist capabilities and the motivating factors that entice individuals to join groups with intentions of changing U.S. policies is central to the formulation of a successful counterterrorism strategy. How the U.S. counters terrorist operations while developing a plan to dissuade individuals from aligning with radical militant Islamists, remains a top policy concern for both the Administration and Congress. Questions relating to the alignment of the Administration's September 2006 National Strategy for Combating Terrorism with current and projected resources are likely to be issues of concern throughout the 110th Congress.

Another likely subject of Congressional focus is overseeing the progress of the Administration's efforts towards meeting the counterterrorism mission requirements contained in the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458) and the USA PATRIOT Improvement and Reauthorization Act of 2005 (P.L. 109-177). Specific areas of focus may involve assessing post 9/11 counterterrorism and intelligence organizations and related programs that are responsible for identifying, warning, preparing, thwarting, and responding to acts of terrorism. These programs will be assessed for successes and failures towards implementation as described in the aforementioned legislation including efforts that may threaten civil liberty protections. Other issues may include terrorists' use of emerging technologies, availability and accessibility of material used in producing a portable weapons of mass destruction device, identifying and measuring success in U.S. counterterrorism policies and programs and understanding how individuals are attracted to joining cells that are decentralized from an organized terrorist group, yet ascribe to the same philosophical beliefs and desire to cause harm to U.S. interests.

Finally, an issue that is likely to be of focus is the U.S. foreign policy impact on international counterterrorism partners and their response to changes in U.S. strategy and operations. As strategic options and recommendations are provided to the Administration by the Iraq Study Group, the Department of Defense's Iraq Military Strategy Review Group, and the National Security Council's Iraq assessment team, international partners may adjust their support to global counterterrorism efforts and the military conflicts in Iraq and Afghanistan. The possibility of international community support fragmenting with respect to global terrorism issues is likely to require the Administration to increase military and diplomatic efforts in certain areas,

while decreasing focus and resources in others. These strategy considerations may change significantly should the escalation of insurgent activity in Iraq and Afghanistan result in a civil war or failed state or if the leadership of these countries decide to assume primary responsibility for the security of their nation. Shifts in U.S. strategy and international partner support will have resource implications that may prompt the 110th Congress to exercise its legislative and oversight functions.

CRS Report RL33600, *International Terrorism: Threat, Policy, and Response*, by Raphael Perl.

CRS Report RL33160, *Combating Terrorism: The Challenge of Measuring Effectiveness*, by Raphael Perl.

CRS Report RL33123, *Terrorist Capabilities for Cyberattack: Overview and Policy Issues*, by John Rollins and Clay Wilson.

CRS Report RL33555, *Trends in Terrorism: 2006*, by Raphael Perl.

Proliferation and Weapons of Mass Destruction [Sharon Squassoni, Specialist in National Defense (7-7745)]

The United States has long sought to slow or stop the proliferation of nuclear, chemical, and biological weapons, and the missile systems that deliver such weapons of mass destruction (or WMD). A network of international treaties, supply controls, agreements, and initiatives constitute what has become known as the “nonproliferation regime.” The full range of tools includes 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.

In the last two years, a few key events have helped define the contours of the proliferation threat — the revelations that Pakistani scientist A.Q. Khan sold sensitive nuclear technology to countries such as North Korea, Iran, and Libya; intensified inspections in Iran leading to a resolution by the Board of Governors of the International Atomic Energy Agency (IAEA) that Iran was in noncompliance with its safeguards obligation under the Nuclear Nonproliferation Treaty (NPT); and North Korea’s October 2006 nuclear test. The response to the Khan network has included stronger implementation of export controls (especially through UNSC Resolution 1540); a growing emphasis on the 2003 Proliferation Security Initiative; and proposals to create a more proliferation-resistant fuel cycle. Although the Proliferation Security Initiative (PSI), created in 2003 to disrupt trade in WMD technologies by interdicting vessels, aircraft or other modes of transport where possible when they are suspected of carrying WMD-related cargo, has no current funding allocation, several bills in the 109th Congress sought to fund those activities, and the 110th Congress may also take up the issue. On Iran, the 109th Congress held hearings and passed legislation (PL 109-293) to extend sanctions under the Iran-

Libya Sanctions Act, among other things. Given the apparent impasse at the U.N. Security Council since it passed Resolution 1696 in July 2006, following Iran's resumption of its uranium enrichment program, and the reluctance of China and Russia to support imposing sanctions on Iran, the 110th Congress may consider additional legislation. On North Korea, the impasse in the Six Party Talks prompted some lawmakers to urge the Administration to find a way to reinvigorate the talks in the fall of 2006. In some ways, the October 2006 North Korean nuclear test prompted China to make serious diplomatic efforts to bring North Korea back to the table. The 110th Congress is likely to follow the talks on the North Korean nuclear program closely.

The 110th Congress will likely 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 the proliferation of weapons or materials *from* specific countries. 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 WMD, related equipment and materials, and knowledge that might leak out to other nations. Other programs address U.S. concerns about proliferation *from* and *to* specific countries, like North Korea, Pakistan, and Iran. 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.

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

CRS Report RL31599, *Proliferation Control Regimes: Background and Status*, by Sharon Squassoni.

CRS Report RS21881, *Proliferation Security Initiative (PSI)*, by Sharon Squassoni.

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

Regional Geopolitical Dynamics

People's Republic of China and Taiwan. [Kerry Dumbaugh, Specialist in Asian Affairs (7-7683) and Wayne Morrison, Specialist in International Trade and Finance (7-7767)] U.S. relations with the People's Republic of China (PRC) have been less contentious during the George W. Bush Administration than they have been at any time since 1989. The two governments have resumed regular summitry and military-to-military relations, pursued working-level visits, cooperated on anti-terror initiatives, and worked closely to address North Korea's nuclear weapons activities. The two economies have also become increasingly interconnected, with U.S. companies investing heavily in China and some PRC companies investing in the United States. The more regularized bilateral engagement suggests U.S. recognition of the PRC's growing economic development and

international engagement — what has been called “China’s rise” — and the new political clout accompanying it.

The 110th Congress is expected to focus more on U.S.-China trade relations, which have grown increasingly strained in recent years. Key issues Members are likely to address include a large and growing U.S. trade deficit with China (\$202 billion in 2005), China’s policy of pegging its currency to the dollar and refusal to adopt a floating currency (which some contend unfairly makes imports from China cheaper and U.S. exports to China more expensive), Beijing’s poor record of protecting U.S. intellectual property rights (IPR), its failure to fully implement its WTO commitments, and its use of a number of unfair trade practices (such as use of subsidies and dumping) that many perceive as negatively affecting various U.S. manufacturing sectors.

Numerous bills were introduced in the 109th Congress that addressed these issues. For example, in July 2005, the House passed H.R. 3283 to apply U.S. countervailing duties against subsidized imports from non-market economies (such as China); establish a comprehensive monitoring system to track China’s compliance with specific WTO commitments and other trade pledges to the United States; and to boost funding for U.S. trade compliance agencies. In addition, a bill introduced by Senator Schumer (S. 295) that sought to impose a 27.5% ad-valorem increase in U.S. import tariffs on Chinese goods garnered significant bipartisan support. The 110th Congress is likely to continue to pursue such initiatives. In addition, the 110th Congress is expected to be more assertive in pressing the Bush Administration to press China to improve IPR protection, comply with WTO rules, and end various economic practices (such as a pegged currency and subsidies to domestic firms) that are deemed harmful to U.S. economic interests.

Taiwan remains the most sensitive and complex issue in Sino-U.S. relations. The PRC continues to claim sovereignty over the island and vows that one day Taiwan will be reunified with China either peacefully or by force. In March 2005, the PRC’s National People’s Congress (NPC) adopted an “anti-secession law” aimed at creating a legal basis for PRC military intervention in Taiwan. These PRC claims, many fear, could result in direct U.S.-PRC conflict under P.L. 96-8, the Taiwan Relations Act (TRA), which spells out U.S. strategic interests in and arms sales commitments to Taiwan and states that forceful resolution to Taiwan’s status would be of “grave concern to the United States.” U.S. policy on Taiwan is complicated further by other factors. The Taiwan government essentially is grid-locked by a near-even split between ruling and opposition party coalitions. One hostage to this resulting political rancor has been a substantial U.S. arms package that President Bush authorized for sale to Taiwan in 2001. The bill has been blocked for years by the opposition-controlled legislature, a matter of growing concern to White House and Congressional officials.

Congressional sentiment, long favorable toward Taiwan, has sought to find ways to support Taiwan’s interests amidst growing congressional frustrations over Taiwan’s political gridlock and lagging defense spending. Early in the 110th Congress, Members may seek to support a Free Trade Agreement with Taiwan — one of that government’s high priorities — and could renew efforts to discontinue funding for U.S. Government restrictions that limit U.S. contacts with Taiwan

officials. As in past Congresses, the 110th is likely to remain interested in helping Taiwan gain observer status in the World Health Organization (WHO) despite obstacles mounted by the PRC. Finally, Members in the 110th also are likely to remain concerned about Taiwan's waning defense spending and U.S. arms sales purchases.

Many observers are now focusing on the critical implications China's economic growth and increasing international engagement are having for U.S. economic and strategic interests. PRC global outreach has grown significantly in just a few years, and this international engagement has gone hand-in-hand with expanding political influence. While PRC officials appear to have no qualms about working with undemocratic or authoritarian governments, PRC outreach also has extended to key U.S. allies or to regions where U.S. dominance previously has been unquestioned. In pursuing its global relations, the PRC has sought to form and join international groupings that often exclude the United States. In December 2005, for instance, China took part in the first East Asia Summit (EAS) — a new grouping of 16 Asian countries that includes U.S. military allies. While Russia's President Vladimir Putin attended as an invited observer, the United States was not asked and did not seek to participate in any capacity.

“Energy politics” plays a key role in China's global relationships, particularly in the Middle East, Africa, and Latin America. Often these contacts are with countries the United States considers “rogue regimes.” PRC negotiators, for instance, signed significant oil deals with Iran in 2004, and Beijing has targeted other “bad actors” for energy-related development, such as resource-rich Sudan and Angola. Beijing and Venezuela have signed a series of agreements committing the China National Petroleum Corporation to spend over \$400 million to develop Venezuelan oil and gas reserves. PRC energy interests also extend to Canada, with which China in 2005 signed a series of agreements to prioritize cooperation on energy issues — including gas, nuclear, clean energy, and oil sources, primarily massive “oil sands” in Alberta. These and other PRC energy interests prompted the 109th Congress to begin debating the national security risks of selling American energy assets to the PRC. The 110th Congress is likely to remain concerned about and active on these issues. One focus for Members of the 110th may be the 13 relevant recommendations made to Congress in November 2006 by the Congressionally-mandated U.S.-China Economic and Security Review Commission on how the United States should respond to China's increasing international engagement.

CRS Report RL32804, *China-U.S. Relations: Current Issues & Implications for U.S. Policy*, by Kerry Dumbaugh.

CRS Report RL33684, *Taiwan-U.S. Political Relations: New Strains and Changes*, by Kerry Dumbaugh.

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

CRS Report RL33604, *Is China a Threat to the U.S. Economy?*, by Craig Elwell, Marc Labonte and Wayne Morrison.

CRS Report RL33416, *Social Unrest in China*, by Thomas Lum.

Iran. [Kenneth Katzman, Specialist in Middle Eastern Affairs (7-7612), and Sharon Squassoni, Specialist in National Defense (7-7745)] According to the Administration's "National Security Strategy" document released on March 16, 2006, the United States "may face no greater challenge from a single country than Iran."³ That perception was initially fed by reported advances in Iran's nuclear program and by several comments by Iranian President Mahmoud Ahmadinejad, elected in June 2005, that Israel should be eliminated. U.S. concerns about Iran were intensified following the military confrontation between Iranian-armed and assisted Lebanese Hezbollah and Israel in July-August 2006 and subsequent purported efforts by Hezbollah to topple Lebanon's anti-Syrian governing coalition. To date, the Bush Administration has pursued several avenues to attempt to contain the potential threat posed by Iran, but the Administration's focus on preventing an Iranian nuclear weapons breakthrough has brought diplomatic strategy to the forefront of U.S. policy. As part of that effort, the Bush Administration announced May 31, 2006, that it would negotiate with Iran, in a multilateral framework consisting of the permanent members of the U.N. Security Council plus Germany (so-called "P5+1"), if Iran first suspends uranium enrichment; in past years the Bush Administration has had only limited dialogue with Iran on specific regional issues.

Multilateral talks with Iran have remained stalled for over one year. In September 2005, the International Atomic Energy Agency's Board of Governors resolved that Iran was in non-compliance with its safeguards obligations under the Nuclear Non-proliferation Treaty (NPT). This followed inflammatory remarks about Israel by Ahmadinejad at the U.N. General Assembly that September, as well as indications that Iran appeared poised to abandon its uranium enrichment suspension, brokered initially in late 2003. Although many, including Russia and China, hoped to keep Iran's "dossier" in Vienna at the IAEA, Iran's complete abandonment of its unilateral suspension, as well as its decision to end interim application of enhanced safeguards inspections by the IAEA (per its Additional Protocol), led to the Board referring Iran to the U.N. Security Council in February 2006. The U.N. Security Council passed Resolution 1696 on July 31, 2006, which reiterated earlier demands for Iran to halt its activities and return to negotiations, and hinted that sanctions would follow should Iran fail to comply by an August 31, 2006 deadline. The foreign

³ The National Security Strategy of the United States of America, March 16, 2006. Available at [<http://www.state.gov/r/pa/ei/wh/c7889.htm>].

ministers of France, the United Kingdom, and Germany (known as the EU-3) continue to be closely involved in negotiating with Iran, even in the context of the Security Council, but Russia and China have remained stumbling blocks to imposing significant sanctions, despite what appeared to be agreement in the fall of 2006 for such an approach. Proposals and counter-proposals have been made to little effect, while Iran continues to improve its uranium enrichment capabilities.

Iran's nuclear program is not the only major U.S. concern on Iran. Successive administrations have pointed to the threat to the United States and its allies posed by Iran's policy in the Near East region, particularly material support to groups that use violence to prevent Israeli-Arab peace. Such groups have long included Lebanese Hezbollah and the Palestinian groups Hamas and Palestinian Islamic Jihad. Although there is no evidence of an operational relationship with Al Qaeda, some senior Al Qaeda activists are believed to be in Iran, although Iran claims they are "in custody." U.S. officials also accuse Iran of attempting to exert influence in Iraq by providing arms and other material assistance to Shiite Islamist militias, some of which are participating in escalating sectarian violence against Iraq's Sunnis there.

The 110th Congress will likely monitor developments in U.S. policy toward Iran, and some in Congress are proponents of a variety of options should Iran continue to advance its nuclear program or continue efforts against U.S. interests in the region. Some might advocate military action against Iran's nuclear infrastructure rather than acquiescence to the potential threat posed by a nuclear-armed Iran. Others in the Administration and in Congress believe that only a change of Iran's regime could end the threat posed by Iran. Legislation expressing support for regime change and extending certain sanctions on investment in Iran's energy sector (Iran-Libya Sanctions Act, ILSA), was passed in the 109th Congress. H.R. 6198, passed and then signed on September 30, 2006 (P.L. 109-293), extends ILSA until December 31, 2011, and drops Libya from the law. It codifies existing Iran sanctions, makes exports to Iran of weapons of mass destruction (WMD) or advanced conventional weapons technology sanctionable, and authorizes funding for promoting democracy in Iran. It recommends a 180-day time limit for the Administration to determine whether a project violates ILSA. Passage of this law followed Congressional action on an Administration request for \$75 million to promote democracy in Iran. A FY2006 supplemental appropriation (H.R. 4939, P.L. 109-234) provided a total of \$66.1 million, as follows: \$20 million for democracy programs (\$5 million more than requested); \$5 million for public diplomacy directed at the Iranian population (the amount requested); \$5 million for cultural exchanges (the amount requested); and \$36.1 million for Voice of America-TV and Radio Farda broadcasting (\$13.9 million less than requested).

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.

Israel and Its Neighbors: Impediments to the Peace Process. [Carol Migdalovitz, Specialist in Middle Eastern Affairs (7-2667)] In summer 2006, Israel fought wars in the Gaza Strip and in Lebanon with inconclusive results that left both situations unstable. In Gaza, Israel escalated a military offensive against Hamas and its cohort to obtain the release of a soldier kidnaped on June 25 and to end Palestinian rocket fire into southern Israel. Neither goal was accomplished and a low level conflict persisted until Palestinian President Mahmoud Abbas and Israeli Prime Minister Ehud Olmert reached an agreement for a cease-fire at the end of November. The cease-fire is fragile, and Israel or the Palestinians could trigger a resumption of hostilities at any time.

The United States, United Nations, European Union, and Russia (known as the “Quartet”) insist that Hamas, which has led the Palestinian Authority (PA) since March 2006, disavow violence, recognize Israel, and accept prior Palestinian-Israeli agreements in order for an embargo on most international direct aid to the PA to be lifted. President Abbas conducted protracted negotiations with Hamas to form a new national unity government partly in order to get the Quartet-led embargo lifted, but he has announced that the talks have reached a “dead end.” Aside from other demands, Hamas will not meet the Quartet’s conditions. For its part, Israel seeks to deal with Abbas. On November 27, Prime Minister Olmert declared that if the Palestinians establish a new government committed to the Quartet’s principles and bring about the release of the Israeli soldier, then he would enter into an immediate dialogue with Abbas to establish an independent, viable Palestinian state with territorial contiguity, free many Palestinian prisoners, and take other confidence-building measures. It remains unclear how or if Abbas will produce a new government acceptable to Israel, the United States, and others in the international community.

In Lebanon to the north, Israel launched an all-out war against the Hezbollah after it attacked a military post in northern Israel and kidnaped two soldiers on July 12. The death toll was high: 119 Israeli soldiers and 41 civilians, 1,187 Lebanese civilians, an estimated 600 Hezbollah militiamen, and 44 members of the Lebanese security forces, and much Lebanese and some Israeli infrastructure was destroyed or damaged. An enlarged international peace-keeping force deployed to southern Lebanon to supervise a cease-fire and act as a buffer between Hezbollah and Israel. However, Hezbollah has not released the kidnaped soldiers nor disarmed, is believed to be rearming, and is pressing for an enhanced role in the Lebanese political system, placing Lebanese democracy at risk and increasing the potential for instability north of the Israeli border. Although Hezbollah appears to be preoccupied with domestic Lebanese politics, it could refocus on Israel when the Lebanese situation is resolved to its satisfaction and its resources are replenished.

Meanwhile, Syrian President Bashar al-Asad appears to be using what he views as Hezbollah’s victory against Israel and the U.S. need for his help with Iraq to press Israel and Washington for a renewed peace process that would end with Syria’s regaining the Golan Heights — 450 square miles of land along the border which Israel has occupied since 1967. Some in Israel and in the international community also seek to revive peace talks with Syria that were suspended in 2000. Others, including some in the U.S. Administration, prefer to keep Syria isolated until it monitors its border with Iraq effectively, plays a constructive role vis-a-vis Lebanon,

and ceases support for Hezbollah and Hamas. They also do not want to interfere with a U.N. investigation into the assassination of former Lebanese Prime Minister Rafiq al Hariri for which some believe Syria may be culpable. Israeli Prime Minister Olmert also rejects engagement with Syria until it changes its behavior.

The U.S. Administration has expressed solidarity with Israel in its conflicts with Hamas and Hezbollah, maintaining that Israel is exercising its right to self-defense. It has advocated for Israel's views in the Quartet and in the United Nations and, during the war in Lebanon, expedited the delivery of some arms to Israel. The Administration seeks to assist in the reconstruction of Lebanon and has reprogrammed some funds for that purpose. It also has provided humanitarian aid to the Palestinians via international and non-governmental agencies, but no direct aid to the Hamas-led Palestinian Authority. Congress similarly has passed resolutions supporting Israel and condemning Hamas and Hezbollah. Israel remains one of the largest annual recipients of U.S. foreign aid, but there have long been restrictions on aid to the PA, which some Members sought to tighten after Hamas took power. The 110th Congress will likely continue to scrutinize aid to the Palestinians and Lebanon and insist that Israel's Arab neighbors meet preconditions before a return to the peace process. The new Congress also may examine recommendations of the Iraq Study Group, which argued that "Iraq cannot be addressed effectively in isolation from other major regional issues" and called for a "renewed and sustained commitment" to a comprehensive, negotiated peace on all fronts, including "direct talks with, by, and between Israel, Lebanon, Palestinians (those who accept Israel's right to exist), and particularly Syria...."

CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*, coordinated by Jeremy M. Sharp.

North Korea. [Emma Chanlett-Avery, Analyst in Asian Affairs (7-7748) and Sharon Squassoni, Specialist in National Defense, (7-7745)] The U.S. goal of denuclearizing the Korean peninsula suffered a setback when North Korea tested a nuclear weapon in October 2006. The test followed a pattern of North Korean provocations and escalations, including the July 2006 test-launch of several short-, medium-, and long-range missiles. Confidence that the Six-Party Talks (with South Korea, Japan, China, and Russia) can achieve a diplomatic solution to eliminate Pyongyang's nuclear weapons programs is diminishing. Since November 2005, Pyongyang has boycotted the talks, insisting that the United States end financial measures and pressure against foreign banks that deal with North Korea. North Korea also calls for direct talks with the United States, but the Bush Administration holds that it will negotiate bilaterally with Pyongyang only within the six-party framework. Despite supporting a United Nations Security Council resolution condemning the test, China and South Korea — the most significant trade partners and aid providers to the North — have not fundamentally altered their approach and appear unwilling to apply much stronger economic and legal pressure on the regime.

In the wake of the test, North Korea continues to present a range of challenges to U.S. interests. Analysts fear that the medium and long-term implications of the test could include a more potent nuclear threat from Pyongyang, a nuclear arms race in Asia, and/or the transfer of nuclear weapons or material to states or groups hostile to the United States. There are also strong concerns about the impact on the global nonproliferation regime, particularly to other states poised to develop their own nuclear weapon programs. In addition to these security issues, North Korea's human rights record, along with the plight of North Korean refugees, continue to elicit concern. Further law enforcement concerns exist with North Korea's counterfeiting and narcotic trafficking programs. With the diplomatic process stalemated and with very limited military options, these challenges are unlikely to be resolved quickly.

In 2006, Congress became more involved in, and at times critical of, U.S. policy toward North Korea. In late September and early October 2006, Congress enacted two pieces of legislation on North Korea. The John Warner National Defense Authorization Act for FY2007 (P.L. 109-364), enacted on October 17, 2006, requires the President to appoint a Policy Coordinator for North Korea by December 17 who must then report to the President and the Congress with recommendations by January 17, 2007. It also requires the executive branch to report to Congress every 180 days in fiscal years 2007 and 2008 on the status of North Korea's nuclear and missile programs. Congress' role in North Korean policy in the 110th Congress will likely depend on the Administration's response to these requirements. The North Korea Nonproliferation Act of 2006 (P.L. 109-353) adds North Korea to the Iran-Syria Nonproliferation Act (P.L. 106-178; P.L. 109-112), authorizing sanctions on third party "persons" for weapons-of-mass-destruction-related transfers to and from North Korea. In particular, this could affect North Korea's missile trade.

CRS Report RL33590, *North Korea's Nuclear Weapons Development and Diplomacy*, by Larry Niksch.

CRS Report RL33709, *North Korea's Nuclear Test: Motivations, Implications and U.S. Options*, by Emma Chanlett-Avery and Sharon Squassoni.

CRS Report RL31696, *North Korea: Economic Sanctions*, by Dianne E. Rennack.

Foreign Affairs

Global Issues

Overview. [Dianne E. Rennack, Specialist in Foreign Policy Legislation, (7-7608)] The 110th Congress inherits from its predecessor a great amount of uncompleted work, primarily in the form of unfinished annual appropriations measures needed to fund the U.S. government and its programs. Foreign Operations Appropriations and State Department Appropriations are among those that the 109th Congress did not enact. The need to fund operations of the current fiscal year, either by a continuing resolution or passage of appropriations measures tailored to specific agencies, expectations that the President will send up a massive emergency spending measure to cover operations in Iraq and Afghanistan, and the shift of the majority

from one party to the other, could presage a very robust Congressional agenda in 2007. Incoming Congressional leadership vowed a vigorous first 100 legislative hours, as well as oversight and investigation of the war in Iraq and counter-terrorism efforts, among other things.

The Speaker of the House-elect has stated that among the many issues to form the first 100 legislative hours, the 110th Congress would implement the recommendations made in 2004 by the independent, bipartisan 9/11 Commission. And in the 79 recommendations of the Iraq Study Group, released December 6, 2006, the 110th Congress is likely to find a valuable impetus as it takes up global issues.

New global issues initiatives put forth by the Executive Branch will also challenge the 110th Congress. In January 2006, for example, the Secretary of State announced significant organizational and philosophical changes to be implemented in the United States' diplomatic and foreign assistance services, the Transformational Diplomacy and Transformational Development initiatives.

Other global issues will carry over from previous Congresses: United Nations reform; providing advice and consent on a new U.S. Ambassador to the United Nations; the humanitarian crisis in — and spilling over the boundaries of — the Darfur region of Sudan; international terrorist threats; statecraft decisions relating to other nations engaged in behavior the United States finds objectionable — among the most pressing, Syria, Iran, or North Korea; cyclical health disasters — most recently avian flu — and more persistent health tragedies — i.e., Human Immunodeficiency Virus and Acquired Immunodeficiency Syndrome (HIV/AIDS), malaria, and tuberculosis. The 110th Congress will have opportunities, through funding, authorizing, providing oversight, or creating new initiatives, to consider all these issues.

Transformational Diplomacy. [Susan B. Epstein, Specialist in Foreign Policy and Trade, (7-6678)] Throughout the George W. Bush presidency, some foreign policy experts have expressed concern about the seeming reluctance of this Administration to use diplomacy as a foreign policy tool, particularly in Iran, Iraq, and North Korea. In January 2006, however, Secretary of State Condoleezza Rice put forth a bold vision for U.S. diplomacy in the 21st century, referred to as Transformational Diplomacy. Secretary Rice has defined Transformational Diplomacy as working with partners “to build and sustain democratic, well-governed states that will respond to the needs of their people” and helping others “better their own lives, build their own nations, and transform their futures.”

Transformational Diplomacy includes global repositioning of State Department personnel largely from Europe and Washington, D.C. to designated critical locations in Africa, South Asia, East Asia and the Middle East. Implementation would create regional public diplomacy centers in Europe and the Middle East. Localization of diplomacy would include American presence posts operated by a single diplomat working in key population centers of a country. Enhanced language and technology skills would expand U.S. diplomacy effectiveness. Diplomats would be trained in public diplomacy skills, and encouraged to engage and promote democratic principles at posts, rather than just report on the culture in which they are living.

The 110th Congress will be faced with funding and oversight issues concerning Secretary Rice's Transformational Diplomacy when the President's budget is submitted in early February, 2007. Global repositioning of State Department personnel is likely to require increased funding in the President's FY2008 budget. Additionally, the 110th Congress may want to convene early committee hearings with Secretary Rice to examine how funds for the Transformational Diplomacy initiative are being spent, whether the initiative is improving the effectiveness of U.S. diplomacy, and how foreign governments are responding to its emphasis on democracy promotion.

CRS Report RL31370, State Department and Related Agencies: FY2006 Appropriations and FY2007 Request, by Susan B. Epstein.

CRS Report RL33420, Foreign Operations (House)/State, Foreign Operations, and Related Programs (Senate): FY2007 Appropriations, by Connie Veillette, Susan Epstein, and Larry Nowels.

CRS Report RL33470, Science, State, Justice, Commerce and Related Agencies (House)/Commerce, Justice, Science and Related Agencies (Senate): FY2007 Appropriations, by Susan B. Epstein and M. Angeles Villarreal.

Transformational Development and Foreign Aid Restructuring. [Connie Veillette, Specialist in Foreign Affairs (7-7127)] The significance of foreign aid as a tool of U.S. foreign policy has come into sharper focus since the terrorist attacks of September 11, 2001 as policy makers recognized that failing states are permissive environments for terrorist activities. In September 2002, the Administration elevated global development as the third "pillar" of its National Security Strategy, along with defense and diplomacy.

The Administration has begun a number of new foreign aid initiatives since 2002. The latest is a foreign aid restructuring process that was begun in January 2006 when Secretary Rice announced a Transformational Development initiative as part of her above-mentioned Transformational Diplomacy proposal. She created a new position at the State Department — the Office of the Director of Foreign Assistance — and appointed the former Global AIDS Coordinator, Randall Tobias, to the position. He also concurrently serves as Administrator of the U.S. Agency for International Development (USAID). Tobias has authority to coordinate the foreign assistance programs managed by the Department of State and USAID, and provide guidance to programs administered by other departments and agencies. He has been charged with restructuring aid programs in support of U.S. foreign policy objectives, and with the goal of eventually graduating recipient countries from U.S. assistance.

In response, Tobias has devised a Strategic Framework for Foreign Assistance to guide the budgeting process and to ensure that aid programs are aligned with a number of strategic objectives. The Framework has been used to write the FY2008 budget request for foreign aid that will be presented to Congress in February. The key issue for Congress will be to evaluate the impact of the new Framework with regard to its effects on program and country funding, particularly on issues in which Congress has expressed its interest. While the Administration believes that no new authorizing legislation is necessary to implement the Framework, Congress may

decide to write an authorization bill, or to express its intent through the annual appropriations process.

Previous to this initiative, President Bush launched two major new foreign assistance programs. 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 Administration also created the Millennium Challenge Account (MCA). The MCA 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 more likely to achieve their intended development results. In 2005, the President launched a malaria initiative, pledging \$1.2 billion in more resources through FY2010.

Finding the resources to sustain these growing aid pledges, plus responding to unforeseen foreign policy contingencies and natural disasters, may be the greatest foreign assistance challenge faced by lawmakers in the 110th Congress. 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 in the Foreign Operations appropriations bill. After largely supporting full funding for the President's foreign aid appropriation requests through FY2004, Congress has made sharp cuts the past two years, including a \$1.9 billion reduction in FY2006, and a House-proposed \$2.4 billion cut in FY2007. Efforts to prioritize, focus resources, and find savings will likely characterize the foreign aid debate early in the 110th Congress.

CRS Report RL33420, *Foreign Operations (House)/State, Foreign Operations, and Related Programs(Senate): FY2007 Appropriations*, by Connie Veillette, Susan Epstein, and Larry Nowels.

CRS Report RL33491, *Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance*, by Connie Veillette and Larry Nowels.

CRS Report RL32427, *Millennium Challenge Account*, by Curt Tarnoff.

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

Peacekeeping, Stabilization, and Reconstruction: New Tools. [Nina M. Serafino, Specialist in Foreign Affairs (7-7667)] The widespread perception 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 109th Congress supported, albeit with some reservation, the Bush Administration's initiatives to bolster U.S. and international civilian and military "stabilization and reconstruction" (i.e., S&R) capabilities. (The term "stabilization and reconstruction" is understood to encompass the kinds of tasks and missions that in the past were loosely labeled "peacekeeping"). The Administration is expected to ask the 110th Congress to support the continuation of these activities, mostly likely with expansion in some areas, and may ask Congress to support new initiatives.

Thus far, the centerpiece of the Administration's initiatives has been the creation in mid-2004 of the State Department Office of the Coordinator for Reconstruction and Stabilization (S/CRS) to monitor states in crisis and to plan and coordinate civilian efforts to deal with such states. S/CRS was modeled on a proposal advanced by Senators Lugar and Biden in the Stabilization and Reconstruction Civilian Management Act of 2004 (S. 2127, 109th Congress), and endorsed by Congress in the FY2005 Consolidated Appropriations Act (P.L. 108-447, Division D, Section 480).

The Administration is expected to ask the 110th Congress to fund the expansion of S/CRS capabilities, in particular a proposal being developed by S/CRS for a civilian S&R reserve force. It may also ask the 110th Congress to reconsider previous Congress' decisions to deny State Department funding for a Conflict Response Fund to support S/CRS' overseas activities. (The 109th Congress provided such funding through the Department of Defense budget, however, granting the Secretary of Defense with \$100 million in transfer authority in each FY2006 and FY2007 for S&R purposes in the FY2006 National Defense Authorization Act, P.L. 109-163, Section 1207). The Administration may also ask Congress to approve new initiatives regarding inter-agency cooperation, in line with National Security Presidential Directive (NSPD) 44, *Management of Interagency Efforts Concerning Reconstruction and Stabilization*, issued in December 2005.

Congressional consideration of the development of civilian capabilities for S&R operations may well entail a parallel determination of the appropriate role and capabilities for the U.S. military in such settings. DOD, as well as some key Members of Congress (especially on the defense and foreign affairs committees), have pushed for the development of civilian instruments to plan and carry out activities such as political institution building, the reconstruction of physical infrastructure, and humanitarian relief, which military forces have had to perform by default. Civilians can better carry out such activities, according to many analysts, and the creation of civilian capabilities would relieve military forces of the burden of doing them in all but combat situations. Unless adequate civilian personnel are provided, however, whether and to what extent to modify the size, structure, training, doctrine, or equipment of U.S. military forces in order to improve S&R performance becomes a major issue for some analysts. The Administration may ask the 110th Congress to consider enhancing military S&R capabilities as proposals are developed in line with the 2005 DOD Directive 3000.05, which mandates that S&R-type operations be treated as core military missions.

Congress may also wish to consider issues regarding the scope and management of the State Department sponsored-DOD implemented FY2005-FY2009 Global Peace Operations Initiative, through which the United States trains and equips foreign military forces to participate in international peacekeeping operations. Issues regarding the wisdom of U.S. training for foreign troops may arise in the context of an expected Administration request to increase funding for the "Section 1206" foreign military training program authorized in the FY2006 and FY2007 National Defense Authorization Acts (P.L. 109-163 and P.L. 109-364).

CRS Report RL32862, *Peacekeeping and Conflict Transitions: Background and Congressional Action on Civilian Capabilities*, by Nina M. Serafino and Martin Weiss.

CRS Report RL33557, *Peacekeeping and Related Stability Operations: Issues of U.S. Military Involvement*, by Nina M. Serafino.

CRS Report RL33647, *A Civilian Reserve for Stabilization and Reconstruction Abroad: Summary of a Workshop on U.S. Proposals and International Experiences and Related Issues for Congress*, by Nina M. Serafino.

Humanitarian Assistance and Refugees. [Rhoda M. Margesson, Specialist in Foreign Affairs (7-0425)] There is no shortage of humanitarian emergencies worldwide stemming from natural disasters or manmade conflicts. In the 110th Congress, humanitarian assistance is likely to continue to have a strong measure of bipartisan support and priority. The key policy issues of concern to Congress will likely focus on budget priorities, levels of funding, and the types of support available worldwide. While humanitarian assistance is assumed to consist of urgent food, shelter and medical needs, the very nature of humanitarian disasters — the need to respond quickly in order to save lives and provide relief — often demands an unrestricted definition on both a policy and operational level.

Congress has consistently supported humanitarian efforts as a means of responding to crises in the short term, taking the lead, and promoting a U.S. presence. A decision by the United States to respond in a crisis results in varying amounts of relief and recovery assistance. Factors that may impact decision — making include the type of humanitarian assistance required; the impact of conflict and refugee flows on stability in the region in question; and the role of neighboring countries and the broader international community in contributing to the relief effort. The President can provide emergency humanitarian assistance through several sources whose funding is authorized and appropriated by Congress. In addition to competing aid and budget priorities, reimbursing U.S. government agencies for their expenditures, either to replenish the emergency accounts or other accounts that have been used to provide assistance will remain a Congressional issue.

International recovery efforts are typically complex and, in addition to the United States, involve many actors. These include U.N. agencies, international organizations, non-governmental organizations (NGOs), and bilateral and multilateral donors. Therefore, the broader international response — coordination of assistance, sharing the cost of an international recovery effort and donor fatigue — are of significant interest to Congress and may impact levels of funding and support available. Although it is usually impossible to predict when or where the next humanitarian or natural disaster may occur or how much funding will be needed in order to address it, cases of interest to Congress include a wide range of known situations, such as Darfur, North Koreans in China, Afghanistan, and Iraq (see below).

Darfur, Sudan. Some experts consider the Darfur, Sudan situation to be the worst humanitarian crisis in the world. Estimates suggest that several million civilians have been displaced and refugees in neighboring Chad number more than

220,000. In addition to the impact of the conflict, some experts warn of the potential for an even greater humanitarian disaster if hostilities are not brought to an end and access by aid agencies is not increased and sustained. In FY2006, the United States provided \$776.3 million in humanitarian assistance to Sudan and Eastern Chad. As of December 2006, the United States has provided \$190.4 million for FY2007 in humanitarian assistance to Sudan and Eastern Chad.

North Koreans in China. The status of the estimated tens of thousands of North Koreans living illegally in China has been of concern to Congress for some time. China sees the North Koreans as economic migrants rather than political refugees and has cracked down periodically on the population by forcibly returning them to North Korea where their fate is unknown, but reports of gross human rights violations abound. United Nations relief agencies have not been granted access to conduct an official full assessment of the unfolding situation, although a number of foreign, private NGOs have been tacitly accepted. Estimates of the number of refugees range from 10,000 to 300,000. In response to this situation, Congress passed H.R. 4011, the North Korean Human Rights Act of 2004 (P.L. 108-333).

Afghanistan and Iraq. Although Afghanistan and Iraq represent two distinct situations, at differing levels of recovery, relief and reconstruction assistance operate on parallel tracks within close proximity to the military. The evolution of the civil-military relationship has received mixed reviews from the aid community, in part because of concerns about compromising neutrality and impartiality and increasing the possibility of a targeted attack. In some cases, violence has led to the suspension of activities or withdrawal of aid agencies from certain areas altogether. Many in Congress hold that disaster assistance should be provided whenever possible with foreign assistance funds through NGOs, and yet, aid worker security remains an issue of significant concern, particularly in Iraq. The role of the military in post-emergency transitions and reconstruction is still evolving as demonstrated by developments in Afghanistan and Iraq. The use of Department of Defense funds and personnel may continue to be controversial.

CRS Report RL31766, *Iraq: United Nations and Humanitarian Aid Organizations*, by Thomas Coipuram Jr.

CRS Report RL33701, *Uganda: Current Conditions and the Crisis in North Uganda*, by Ted Dagne and Lauren Ploch.

Global Health and HIV/AIDS Issues. [Tiaji Salaam-Blyther, Specialist in Foreign Affairs (7-7677)] Issues that Congress is expected to take up in the 110th Congress, include enacting appropriations for global health programs; determining whether to reauthorize the President's Emergency Plan For AIDS Relief (PEPFAR); strengthening ailing health systems in developing countries; and containing outbreaks of infectious disease. It is estimated that HIV/AIDS, tuberculosis (TB), and malaria together kill more than 6 million people each year. Since HIV/AIDS was identified in 1981, about 65 million people have reportedly contracted HIV, and more than 25 million people have died from AIDS. More than 40 million people are reportedly living with HIV/AIDS worldwide, including more than 4 million of whom were newly infected in 2005. Each year, there are reports of about 300 million malaria

cases globally, which cause more than one million deaths annually. Between 85% and 90% of those deaths reportedly occur in Africa. More than 80% of the estimated 14 million people living with TB worldwide live in Asia and Africa.

A number of FY2007 appropriations bills that provide funds for HIV/AIDS, TB, and malaria have yet to be enacted. H.R. 5522, FY2007 House Foreign Operations appropriations, provides about \$3.6 billion for the three diseases, some \$47 million less than requested. H.R. 5647, FY2007 House Labor, HHS, Education appropriations provide \$121.9 million for CDC's Global AIDS Program, meeting the President's request. S.Rept. 109-277, the Senate report to FY2007 Foreign Operations appropriations, provides about \$3.8 billion for the three diseases. S. 3708, FY2007 Labor, HHS, Education appropriations, does not provide funds for global HIV/AIDS, TB, and malaria programs.

P.L. 108-25, the U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act, authorized \$15 billion to be spent from FY2004 to FY2008 on fighting HIV/AIDS, TB, and malaria. Some health advocates would like Congress to authorize more than \$15 billion for the five-year initiative. Although P.L. 108-25 authorizes \$1 billion for U.S. contributions to the Global Fund through FY2008, appropriators have already exceeded that amount by more than \$500 million. Some argue that this has taken from U.S. spending on bilateral programs, while others encourage the United States to contribute more. A number of Members introduced legislation in the 109th Congress to amend language in the act, which reserves 33% of prevention funds for abstinence programs. Others advocate that Congress increase spending on other prevention strategies, such as those that prevent the transmission of HIV from mother to child. A number of analysts have requested that Congress expand the list of PEPFAR Focus Countries to include countries in other regions where the virus is rapidly spreading, such as in Latin America, the Caribbean, Eastern Europe, and Central Asia.

A large number of countries, especially in sub-Saharan Africa, are struggling with inadequate health systems, which are crippled by shortages of medical personnel. WHO estimates that there is a global shortage of 4.3 million health workers. Of the 57 countries with critical shortages of health care workers, 36 are in Africa and none are in industrialized nations. Global health experts contend that the rapid infusion of funds targeted at HIV/AIDS initiatives is pulling in-country resources and health workers away from government-run health clinics to foreign-funded HIV/AIDS programs. This movement, health analysts purport, exacerbates the current health worker shortage and limits the number of health professionals capable of treating other afflictions.

Proponents of greater spending on global health argue that the global spread of avian influenza (H5N1) and the inability of countries such as Indonesia to contain the virus demonstrates the need to increase investment in strengthening public health systems. Supporters also argue that increased spending might encourage state openness and responsibility, and enhance global cooperation and containment efforts. New and evolving infectious diseases and the potential for bioterrorism are creating growing linkages between domestic and global health policies. These developments have raised a host of issues for policy makers, including ensuring health data reporting, enhancing pandemic preparedness capacity, managing public fear and

information disclosure, coordinating national and international responses to infectious disease outbreaks, and overcoming resource and distribution challenges.

CRS Report RL33485, *U.S. International HIV/AIDS, Tuberculosis, and Malaria Spending: FY2004-FY2007*, by Tiaji Salaam.

CRS Report RL33219, *U.S. and International Responses to the Global Spread of Avian Flu: Issues for Congress*, by Tiaji Salaam.

CRS Report RL33349, *International Efforts to Control the Spread of the Avian Influenza (H5N1) Virus: Affected Countries' Responses*, coordinated by Emma Chanlett-Avery.

United Nations Reform. [Marjorie Ann Browne, Specialist in International Relations (7-7695) and Luisa Blanchfield, Analyst in Foreign Affairs (7-0856)] United Nations reform, as variously defined, has drawn the attention of many in Congress and the executive branch as well as other U.N. member governments. In the past, Congressional views and expectations on the need for U.N. reform have resulted in significant arrearage in U.S. contributions, especially to U.N. regular budget and peacekeeping accounts, and led Congress to specify conditions that had to be met prior to the release of U.S. funds appropriated to finance these contributions or arrearages.

As the 110th Congress convenes, several issues relating to U.N. reform remain pending, although former U.N. Secretary-General Kofi Annan and U.N. member states have proposed or put into place a series of management, programmatic, and structural reforms aimed at improving the organization. Many of these reforms are in various stages of implementation, while others are still being considered by U.N. member states. Some in Congress may wish to examine how these reforms are being implemented, as well as the extent to which previously-implemented reforms meet their intended goals. Some Members may also want to examine reform issues that have not been fully addressed by the United Nations.

In addition, on December 14, 2006, Ban Ki-Moon of South Korea replaced Kofi Annan as Secretary-General of the United Nations. Ban has stated that U.N. reform will remain a priority during his tenure as Secretary General. Another potential area of focus may be the Senate's consideration of a nominee to replace John R. Bolton, who resigned as U.S. Permanent Representative to the United Nations. The appointment of a new U.S. ambassador to the United Nations may have implications for U.S. policy toward the United Nations, as well as for ongoing U.N. reform efforts.

As the single largest financial contributor to the United Nations, the United States has actively participated in the U.N. reform process. Some Members of Congress and the Administration have advocated for, among other things: strengthening U.N. internal oversight, improving U.N. human rights mechanisms, and increasing fiscal discipline. Areas of concern that may have contributed to current U.N. reform efforts include allegations related to the U.N. oil-for-food program in Iraq 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; the widely-perceived ineffectiveness of U.N. human rights mechanisms; and the capacity of the United Nations to provide security for its activities around the world. It is anticipated that U.S. interest in U.N. reform will continue to remain strong as reform initiatives are debated and considered by U.N. member states.

CRS Report RL33611, *United Nations System Funding: Congressional Issues*, by Marjorie Ann Browne.

CRS Report RL33700, *United Nations Peacekeeping: Issues for Congress*, by Marjorie Ann Browne.

CRS Report RL33608, *The United Nations Human Rights Council: Issues for Congress*, by Luisa Blanchfield.

Economic Sanctions. [Dianne E. Rennack, Specialist in Foreign Policy Legislation, (7-7608)] The United States imposes various types of economic sanctions on numerous countries, individuals, or entities, in furtherance of foreign policy or national security goals. The United States maintains economic sanctions that restrict most transactions with those countries it has identified as supporters of international terrorism: Cuba, Iran, North Korea, Sudan, and Syria. The United States maintains an arms embargo on Belarus, Burma, China, Liberia, Somalia, Vietnam, and the aforementioned terrorist states (and it continues to be the policy generally to deny export or import licenses for defense articles and defense services for Afghanistan, Democratic Republic of Congo, Haiti, Iraq, and Rwanda). The United States limits foreign aid to about two dozen states or regions and the terrorist states. The United States, under authority granted the President to recognize conditions of national emergency and to curtail transactions accordingly, limits trade, transactions, and investment in Burma, Cuba, Iran, Liberia, North Korea, Sudan, Syria, Zimbabwe, and the Western Balkans. 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, those who contributed to the conflict in the Democratic Republic of the Congo, and diamond traffickers (when the diamonds have not been subject to a certification process). These individuals and entities number in the hundreds.

Congress has always sought — some would say it has struggled — to find the balance among competing foreign policy and national security concerns. In the 1970s, for example, Congress enacted legislation that focused on human rights concerns, while the 1980s ushered in increased attention to proliferation. Congress, in recent years, has focused on implementing counter-terrorism and democracy promotion measures. The use of economic sanctions, particularly after the events of September 11, 2001, the onset of the war on terrorism, and the war in Iraq, seems to have become more pragmatic, less driven by absolutes. Several countries could be targeted for sanctions based on their human rights or proliferation records — for example, Pakistan, Russia, or Saudi Arabia — but are recognized, and some would say rewarded, instead as vital allies in the war on terrorism. Nonetheless, the Administration 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), and each of these reports could provide the impetus for calling on the Administration to exercise statutory authority to impose economic sanctions on countries with objectionable practices. Or Congress could initiate new legislative requirements to restrict trade, aid, or transactions with states with objectionable behavior.

The 110th Congress is also faced with a range of recent events that could be addressed by the use of existing, or creation of new, economic restrictions: The Six Party talks are tentatively set to resume on North Korea's pursuit of nuclear capability; Iran continues pursuing its own nuclear ambitions. The crisis in the Darfur region of Sudan is spilling into its neighboring states. Cuba appears to be facing an imminent change in leadership. Recent events in — and U.S. relations with — Belarus, Libya, Syria, Iran, the Palestinian territories, Lebanon, and Iraq all could raise the possibility of imposition of new, or adjustment of existing, sanctions regimes.

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

CRS Report 98-795, *State and Local Economic Sanctions: Constitutional Issues*, by Jeanne J. Grimmett.

CRS Report RL33499, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

Africa

Overview. [Nicolas Cook, Specialist in African Affairs (7-0429) and Lauren Ploch, Analyst in African Affairs (7-7640)] U.S. policy priorities pertaining to Sub-Saharan Africa likely to be taken up by the 110th Congress may build upon or amend many of those pursued by the 109th Congress, but a range of new Africa-focused policy problems will also face the 110th Congress. Key U.S. policy issues pertaining to Africa are likely to center on U.S. efforts to promote peace and security in the region; U.S. counter-terrorism initiatives; bilateral military cooperation and training assistance efforts, particularly in support of international peacekeeping capacity building; the programmatic focus, funding levels, and objectives of diverse U.S. assistance efforts; the promotion of democratic governance and transparency, the rule of law, and human rights in Africa; and efforts to promote U.S.-Africa trade and market-driven African economic growth. U.S. relations with the African Union (AU) are likely to continue to focus on peacekeeping cooperation, crisis mediation, and U.S. support for AU capacity and institution building to advance democracy, counter-terrorism, and justice goals. U.S.-AU relations may expand following the appointment of a new U.S. ambassador to the African Union and the anticipated opening of an AU mission in Washington, DC.

U.S. efforts to promote peace and security in Africa are likely to remain prominent issues of concern to U.S. policy makers. These will prospectively center on diplomatic, policy, and logistical assistance initiatives aimed to mediate and mitigate political and military crisis in several countries, while also supporting the consolidation of post-conflict transition processes in others. Resolution of the crisis

in the Darfur region of Sudan is likely to remain a key Africa-related issue for Congress, as is implementation of Sudan's north-south Comprehensive Peace Agreement. Peace and security concerns will also likely focus on current, emergent, or recent military-political crises in the Democratic Republic of the Congo, Eritrea-Ethiopia, Cote d'Ivoire, Somalia, Chad, and the Central African Republic, and related U.S. policy responses and assistance programs, including post-conflict rebuilding efforts, as in Liberia. U.S. funds substantially support U.N. peacekeeping missions in many of these countries, and U.S. policy on the progress, structure and mandate, and creation or termination of these missions will draw continuing Congressional attention. Congress is likely to carefully monitor U.S. military cooperation with African countries, which may be affected by the possible creation of a Department of Defense Africa Command; U.S. counter-terrorism initiatives in the region; and related efforts to further U.S. security goals in the region.

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)] In July 2004, the House and Senate declared the atrocities in Darfur genocide. On September 9, 2004, then-Secretary of State Colin Powell, in his testimony before the Senate Foreign Relations Committee, voiced the same assessment. On May 4, 2006, the Government of National Unity and the Sudan Liberation Movement/Army (SLM/A) signed the Darfur Peace Agreement (DPA), after almost two years of negotiations. Since the crisis began in 2003, sources estimate 450,000 people have been killed, more than 2 million displaced, and over 220,000 Sudanese are in refugee camps in neighboring Chad. The security situation continues to deteriorate, especially since the signing of the peace agreement in May 2006 and due to recent troop deployments by the Government of Sudan. Meanwhile, implementation of the Comprehensive Peace Agreement by the Government of Sudan has been selective and at times deliberately slow, according to United Nations officials and Sudan observers. In recent weeks, conditions in South Sudan have deteriorated. In late November 2006, more than 150 people were killed and dozens injured, after two days of fighting between the Sudan People's Liberation Army (SPLA) and Sudan Armed Forces in Malakal, South Sudan.

The crisis in Sudan continues to generate significant interest in Congress. On October 13, 2006, President Bush signed the Darfur Peace and Accountability Act,

(P.L. 109-344), and issued a new Executive Order imposing a number of sanctions on Sudan. CRS coverage will continue to focus on humanitarian and political aspects of the crisis in Darfur, implementation of the Comprehensive Peace Agreement, and the Eastern Sudan Peace Agreement.

Somalia. [Ted Dagne, Specialist in International Relations (7-7646)] In June 2006, the forces of the Islamic Courts Union (ICU) captured Mogadishu, forcing the militia controlled by warlords to flee the capital. ICU forces strengthened and expanded areas under their control after the defeat of the warlords in Mogadishu, and captured two key towns in mid-June 2006. Negotiations between the Baidoa-based Transitional Federal Government and the ICU have not led to a final agreement. U.S. officials have expressed concern about the presence of known terrorist individuals in East Africa, and the possibility that some of them may be using Somalia as a transit and hiding place. These issues, the political crisis and the on-going complex humanitarian emergency in Somalia, the possible deployment of a peacekeeping force, and increasing regional tension are likely to remain the focus of continuing attention.

AIDS in Africa. [Nicolas Cook, Specialist in African Affairs (7-0429)] Africa is the region most severely affected by AIDS in the world. With just over 11% of the global population, it has about 63% of all infected persons (about 24.7 million), 76% of all HIV-positive women, and about 90% of all HIV-infected children. Although Africa's average HIV rate is about 6%, infection rates range as high as 33.4% in southern Africa, where about half of Africa's HIV-positive population resides. Policy makers may consider diverse issues related to funding and allocating U.S. AIDS funding for Africa, including the challenges some recipient countries face in efficiently absorbing the significant inflows of foreign assistance they are receiving. Despite the recipient countries' limited aid absorption capacity, some policy advocates maintain that U.S. international AIDS funding is insufficient in the face of the severity of the pandemic in Africa. Related funding issues may include the reauthorization of the President's Emergency Plan for AIDS Relief initiative; U.S. contributions to the Global Fund (see entry under HIV/AIDS and International Health Issues); the status of anti-retroviral drug treatment and distribution efforts; and the balance between treatment and prevention components of anti-AIDS programs, including the role of premarital abstinence programs in prevention. Other policy issues that might be considered include methods for the scaling up of prevention and care programs and for increasing recipient countries' aid absorption capacity, and the implications of changing AIDS epidemiological trends for AIDS policy making and program design.

CRS Report RL33591, *Africa: U.S. Foreign Assistance Issues*, by Ted Dagne.

CRS Report RL33584, *AIDS in Africa*, by Nicolas Cook.

CRS Report RL33574, *Sudan: Humanitarian Crisis, Peace Talks, Terrorism, and U.S. Policy*, by Ted Dagne.

CRS Report RL33185, *Liberia's Post-War Recovery: Key Issues and Developments*, by Nicolas Cook.

Asia

Overview. [Dick K. Nanto, Specialist in Industry and Trade (7-7754)] For the 110th Congress, Asia poses several critical policy choices. The fundamental issues revolve around security from nuclear, conventional warfare, or terrorist threats; the development of economic and financial relationships necessary for U.S. economic well-being; and the projection of values in a manner that helps shape institutions and attitudes favorable to the United States. While U.S. attention has been drawn to the Middle East, Asian countries have quietly poured resources into economic development and military modernization. This has resulted in governments in the region that are more independent, more focused on gaining economic advantage, and who are beginning to respond in a more lukewarm manner to certain U.S. initiatives.

Asia poses challenges yet also opens the door to opportunities. Flashpoints exist along the Taiwan Strait, on the Korean Peninsula, between India and Pakistan, along the Pakistani border with Afghanistan, and with terrorist activity in Indonesia, the Philippines, India, and Pakistan. Asia also looms large as a source of disruptions to society, be they new strains of infectious diseases, extensive natural disasters, financial panic, or unbalanced trade flows. However, in recent years, Asia has been relatively stable. Despite notable exceptions in North Korea and Burma, virtually all Asian nations have undergone dramatic changes without resorting to open warfare, recidivist representation in government, or retreating significantly from market-based economic systems. As crises develop in Asia, the United States usually is expected to play a lead role in resolving them.

The long-term trends and situations in Asia that warrant attention include (1) the rise of China and Beijing's increasing economic clout both in the region and in trade with the United States; (2) a military buildup both of nuclear and conventional weapons along with channels for nuclear proliferation; (3) a serious decline in favorable attitudes toward the United States, particularly among Asian nations with large Muslim populations and in South Korea; (4) rising nationalism and forces for self-determination, ethnic conflicts, or terrorist incidents in several Asian nations; (5) a growing U.S. strategic relationship with India; (6) cooperation with Pakistan in countering al Qaeda and potential instability and anti-democratic forces within that country; (7) the need for the United States to realign its military forces combined with a decline in the degree to which South Koreans and Japanese feel the need for those forces to protect them; (8) a scramble for natural resources, particularly petroleum but also water and coal; (9) globalization and trade, along with capital flows, that not only have generated a \$356 billion U.S. trade deficit with nations of the Asia Pacific but have led to the outsourcing of jobs to Asian nations; (10) expanding industrial production networks that have created heavy interdependency among economies, including between Taiwan and mainland China; and (11) a developing network of regional free trade and security arrangements that could create an East Asian trading bloc or a security mechanism with diminished U.S. influence.

For the 110th Congress, the likely legislative issues include levels of funding for foreign assistance dealing with anti-terror campaigns, illegal drug trafficking, HIV/AIDS, avian influenza, and military training; considering free-trade agreements with South Korea, Malaysia, and Thailand now being negotiated along with proposals for such agreements with Taiwan, Japan, and other nations; dealing with

the arguably undervalued Chinese currency and bilateral trade imbalances; and further considering U.S.-India nuclear cooperation. Major oversight issues include the six-party talks addressing North Korea's nuclear weapons program, human rights in Burma (Myanmar) and North Korea, conduct of the war on terrorism and dealing with radical Islamists in Southeast and South Asia (particularly in Pakistan), alliance relationships and military realignments, the rising power of China, cross-strait tensions between Taiwan and mainland China, a future Asian trading bloc, and the protection of intellectual property rights and other business-related issues.

Japan. [Emma Chanlett-Avery, Analyst in Asian Affairs (7-7748)] Under the Bush Administration, U.S.-Japan ties have flourished, with many calling the relationship “stronger than ever.” Converging U.S. and Japan objectives in confronting North Korea's nuclear and missile programs, and Japan's participation in U.S. operations in Iraq and Afghanistan have reinforced the notion of the U.S.-Japan alliance as one of the central partnerships of U.S. foreign policy, particularly in Asia. Since 2002, U.S.-Japan bilateral initiatives have reinforced the new and expanded commitment to security cooperation by establishing common strategic objectives and outlining major command changes to U.S. troops stationed in Japan. As Prime Minister Shinzo Abe took office in September 2006, he reaffirmed his commitment to the U.S. alliance and moved quickly to repair Japan's strained political relationships with South Korea and China. Congressional interest in U.S.-Japan relations is driven by the range of U.S. security interests in East Asia, as well as economic and trade concerns. A dispute over the safety of U.S. beef imports appears to be largely resolved, but some Congressional concerns remain on Japanese trade and currency practices.

CRS Report RL33740, *The Changing U.S.-Japan Alliance: Implications for U.S. Interests*, by Emma Chanlett-Avery.

CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress* by Emma Chanlett-Avery, Mark E. Manyin, and William H. Cooper.

CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

South Korea. [Larry Nicksch, Specialist in Asian Affairs, (7-7680)] Since the Korean War (1950-1953), the Republic of Korea (R.O.K.) has been one of the closest allies of the United States. Since 2000, however, issues have arisen that have divided the two governments and increasingly divide public and media opinion in South Korea and the United States. These will be the subject of likely difficult negotiations between Seoul and Washington during the 110th Congress, and Congress will have an important oversight role over these issues.

A direct congressional role might include examining and voting on a Free Trade Agreement that is under negotiation between the United States and South Korea. A U.S.-R.O.K. (KORUS) FTA would be the second largest FTA the United States has entered into; only NAFTA would be larger. Members of the 109th Congress have issued recommendations and warnings over how the two sides deal with certain trade issues in the talks. Negotiations were difficult in 2006 over issues like access of U.S. rice, autos, and pharmaceuticals into South Korea, U.S. restrictions on South Korean

textiles, and U.S. anti-dumping regulations. The negotiations face a deadline of July 1, 2007, when President Bush's "trade promotion authority (TPA)" expires; an agreement must be signed before July 1, 2007, if it is to receive expedited Congressional consideration under that authority. In addition the TPA requires a 90-day presidential notification to Congress of intent to sign the agreement; therefore the KORUS FTA would have to be completed before April 2, 2007.

Policies toward North Korea have become a divisive issue. South Korea's "sunshine policy" seeks "reconciliation, cooperation, and the establishment of peace" with North Korea through exchanges, South Korean aid, and economic cooperation projects. The Bush Administration's approach seeks an end to North Korea's nuclear capabilities and pressure on North Korea on issues like human rights. These differences have been manifest the different positions South Korea and the United States have taken in the six party nuclear negotiations with North Korea. South Korea has taken a negative attitude toward sanctions on North Korea which the Bush Administration imposed in 2005 over North Korea's counterfeit exports and the United Nations imposed in 2006 over North Korea's nuclear and missile tests. The Bush Administration has called for South Korea to cease financial payments to North Korean leader Kim Jong-il in connection with economic cooperation projects and cooperation in searching North Korean ships for weapons of mass destruction. The sanctions issue has brought U.S.-R.O.K. divisions more into public view and has resulted in more criticism of South Korea in Congress and in the U.S. media.

There have been big changes in the U.S.-R.O.K. military alliance and in the U.S. military presence in South Korea since the outbreak of anti-American sentiment in South Korea in 2002. The Pentagon and the R.O.K. Defense Ministry have engaged in tough but so far successful negotiations over withdrawals of U.S. ground forces, relocations of U.S. forces to new bases in South Korea, and plans for dismantling the U.S.-R.O.K. Combined Forces Command into separate R.O.K. and U.S. military commands. South Korea also dispatched over 2,000 troops to Iraq. Future issues include withdrawals of U.S. ground combat forces after the current cycle of withdrawals ends in September 2008; implementing the command restructuring; South Korea's assertion of a right to veto the employment of U.S. forces in Korea into other crises in Northeast Asia; and South Korea's role in the struggle against Islamic terrorism, beginning with its response to U.S. appeals for larger allied military contributions in Afghanistan.

CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry Niksch.

CRS Report RL33435, *The Proposed South Korea-U.S. Free Trade Agreement (KORUS FTA)*, by William H. Cooper and Mark E. Manyin.

South Asia. [K. Alan Kronstadt, Specialist in Asian Affairs (7-5415)]

Long considered a "strategic backwater," South Asia has emerged in the 21st century as increasingly vital to core U.S. foreign policy interests. India, the region's dominant actor with more than one billion citizens, is now recognized as a nascent major power and "natural partner" of the United States, one that many analysts view as a potential counterweight to China's growing influence. Since 2004, Washington and New Delhi have been pursuing a "strategic partnership" based on shared values

such as democracy, multi-culturalism, and the rule of law. They have engaged in increasing counterterrorism cooperation, joint military exercises, high-technology trade, and numerous other economic, security, and global initiatives, including “full civilian nuclear energy cooperation.” This latter initiative, launched by President Bush in July 2005 and provisionally endorsed by the 109th Congress in late 2006, would reverse three decades of U.S. nonproliferation policy. It would require — among other steps — conclusion of a peaceful nuclear agreement between the United States and India, which would itself enter into force only after a Joint Resolution of Approval by Congress. The issue of major U.S. arms sales to India may also come before the 110th Congress. The influence of a growing and relatively wealthy Indian-American community of more than two million is reflected in Congress’s largest country-specific caucus.

In the interests of regional stability, the United States strongly encourages an ongoing India-Pakistan peace initiative and remains concerned about the potential for conflict over Kashmiri sovereignty to cause open hostilities between these two nuclear-armed countries. Congress also continues to have concerns about abuses of human rights, including caste- and gender-based discrimination, 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.

Neighboring Pakistan is the locus of three central U.S. foreign policy issues: terrorism, WMD proliferation, and democratization. The United States seeks to balance an acute interest in Islamabad’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. 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 religious militant groups in Pakistan complicate policymaking by both Islamabad and the U.S. government. Political and military efforts to pacify the country’s rugged western tribal areas continue with little success; a “Pakistani Taliban” has emerged there as a threat to U.S. regional interests.

The proliferation of Pakistani nuclear weapons materials and technologies to third parties was revealed when Pakistani metallurgist A.Q. Khan’s global proliferation network was uncovered in 2004. Islamabad 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 the 109th Congress expressed further concerns that Pakistan’s military has marginalized the country’s secular political parties and consolidated its grip on power in contravention of democratic principles (the next national election is slated for 2007). The State Department has determined that Pakistan’s record on human rights remains poor. Pakistan is among the world’s leading recipients of U.S. aid, obtaining more than \$3.5 billion in direct U.S. assistance for FY2002-FY2006, including \$1.5 billion in security-related aid. Pakistan also has received billions of

dollars in reimbursement for its support of U.S.-led counterterrorism operations. Islamabad has for some time been eager to finalize a Bilateral Investment Treaty with the United States, and also seeks forward movement on President Bush's March 2006 plan to establish Reconstruction Opportunity Zones to facilitate exports from Pakistan's tribal areas. Both initiatives would require Congressional action. The issue of major U.S. arms sales to Pakistan may also come before the 110th Congress.

Three smaller South Asian countries have relevance for U.S. policy makers. Congress has supported Nepal's development for many years. There is now cause for cautious optimism that Nepal's decade-long civil war, which has claimed some 13,000 lives, is drawing to a close. A November 2006 peace accord creates political space for the Maoist rebels to join an interim government. An election slated for June 2007 is to form a special assembly to revise the Nepali constitution. A key issue will be the future disposition of the monarchy, which is opposed by the Maoists. A small team of U.N. monitors will travel to Nepal to monitor the current peace arrangements, which have Maoist and Nepal Army forces in cantonments with locked arms under watch. In the island nation of Sri Lanka, serious violence in a 23-year-old civil war has flared anew, with a fragile 2002 cease-fire agreement all but collapsing. Heavy fighting between Sinhalese-dominated government forces and the separatist Liberation Tigers of Tamil Eelam killed thousands and created a new humanitarian emergency in 2006. The United States designated the Tigers as a terrorist group in 1997 and has cooperated with Japan, the European Union, and, especially, Norway in thus-far unsuccessful efforts to reinvigorate the peace process. Meanwhile, Bangladesh's political stability and status as a moderate democratic Muslim country are increasingly under threat. Elections scheduled for January 2007 have once again led to conflict between the opposition Awami League Party and the Bangladesh Nationalist Party-led government. Bangladesh has been subject to increasing Islamist extremist-inspired violence and is plagued by corruption.

CRS Report RL33529, *India-U.S. Relations*, by K. Alan Kronstadt.

CRS Report RL33498, *Pakistan-U.S. Relations*, by K. Alan Kronstadt.

Southeast Asia. [Thomas Lum, Specialist in Asian Affairs (7-7616)] Key U.S. challenges and interests in Southeast Asia include fighting terrorism, assessing and responding to China's growing influence, finding ways to gain leverage over Burma's domestic policies and international behavior, and promoting trade. The 110th Congress will likely conduct oversight regarding ongoing U.S.-backed counterterrorism programs in the region, particularly in the Philippines and Indonesia, which are said to have reduced the threat of large-scale attacks. Jemaah Islamiyah (JI), the main Southeast Asian Islamist terrorist group, has struck targets in Indonesia and has links to violent Islamist groups in the southern Philippines. Malaysia, Thailand, Singapore, and Cambodia have been known as possible terrorist targets or safe havens. Cooperative counter-terrorism activities include intelligence sharing and joint police investigations in Indonesia and joint military exercises in the Philippines. In 2007, Congress will look toward enhanced military ties with Indonesia following the lifting of U.S. sanctions against military assistance to the country in 2005.

In the past several years, China has downplayed territorial disputes and ideological differences while significantly increasing foreign aid, trade, and its diplomatic presence in the region. According to some analysts, these ties may serve as a basis for China's cultivation of security relationships in Southeast Asia. Some Southeast Asian leaders have argued that the United States has neglected the region or viewed it only through a prism of the global war on terrorism. However, United States and Congressional attention to the region have expanded somewhat to include negotiations for Free Trade Agreements (FTAs) with Thailand and Malaysia (an FTA with Singapore was put into effect in 2004), consideration of permanent normal trade relations (PNTR) status for Vietnam, and the signing, in 2006, of a Trade and Investment Framework Agreement (TIFA) with the Association of Southeast Asian Nations (ASEAN) as a possible precursor to a U.S.-ASEAN FTA.

Many pressing regional issues of interest to Congress, such as terrorism, trade, democracy, human rights, illegal drugs trafficking, and infectious diseases such as HIV/AIDS and avian influenza, are addressed through U.S. regional and bilateral foreign assistance programs. U.S. assistance also aims to address the conditions that may contribute to the rise of radical ideologies and terrorism, such as poverty and unemployment, lack of education, failing governments, political disenfranchisement, and violent conflict. The 110th Congress faces a deteriorating political and human rights situation in Burma, which receives no U.S. bilateral assistance but significant economic and military support from China, as well as the problem of imposing U.S. sanctions on Thailand in response to the military coup that occurred in September 2006. In 2006, Burma and Laos each received a Tier 3 ranking on the State Department's *Trafficking in Persons Report*, which is a basis for denying them non-humanitarian aid. Laos, the Philippines, and Thailand receive bilateral assistance for counter-narcotics programs. Cambodia, Indonesia, the Philippines, and especially Vietnam receive bilateral assistance for HIV/AIDS prevention and treatment.

CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Recipients*, by Thomas Lum.

CRS Report RL33445, *The Proposed U.S.-Malaysia Free Trade Agreement*, by Dick K. Nanto.

CRS Report RL32593, *Thailand: Background and U.S. Relations*, by Emma Chanlett-Avery.

CRS Report RL33490, *Vietnam PNTR Status and WTO Accession: Issues and Implications for the United States*, by Mark E. Manyin, William H. Cooper, and Bernard A. Gelb.

Europe

Overview. [Julie Kim, Specialist in International Relations (7-3692)] Transatlantic relations and developments in Europe and Eurasia will likely remain of interest in the 110th Congress, reflecting a key U.S. goal to sustain close ties with Europe and in foster partnerships on, or at least coordinated responses to, shared regional and global challenges. The transatlantic agenda is full and multifaceted, with policy concerns ranging from the difficult NATO operation in Afghanistan, to

cooperation in the war against terrorism and non-proliferation strategies, such as with respect to Iran, to managing the largest two-way trade and investment relationship in the world. At the same time, U.S. and European perspectives may differ on priorities and/or mechanisms for responding to these challenges. For example, many European governments are pressing the United States to give renewed priority to the Palestinian-Israeli peace process. Iraq remains a difficult transatlantic issue, even if the U.S. - European crisis over the start of the conflict in Iraq has abated. Perhaps most importantly, according to many analysts, Europe remains in a period of introspection, with consequences for its broad integration project and capacity for joint action. Stalled institutional reforms within the European Union are likely to slow further enlargement after the 2007 entry of Romania and Bulgaria; Turkey's prospects for EU membership are particularly controversial. Lame duck governments in key European countries are set to give way to new leadership in the near future.

Specific transatlantic issues that may draw the early attention of the 110th Congress include NATO in Afghanistan, the status of Kosovo, and relations with Russia. NATO's expanding engagement in Afghanistan constitutes the alliance's largest, and potentially most problematic, military operation to date. The disputed status of Kosovo is set to be resolved in early 2007, possibly in some form of independence, although international consensus on this is not certain. Russia presents a host of opportunities and challenges for the Europe and the United States, particularly with regard to its policies toward neighboring states and growing influence as a significant energy source for Europe.

RS22163, *The United States and Europe: Current Issues*, by Kristin Archick and Vincent L. Morelli.

NATO and Afghanistan. [Paul Gallis, *Specialist in European Affairs (7-7679)*] NATO's U.N.-sanctioned International Security Assistance Force (ISAF) assumed responsibility for the stabilization of all of Afghanistan in October 2006. The allies consider the stabilization of Afghanistan their most important mission. ISAF's 31,000 troops are battling a Taliban insurgency and seeking to provide security for the reconstruction of the country. The Afghan government is struggling to improve governance and, with NATO's backing, to rid the country of a large and prospering heroin industry. The mission in Afghanistan is a test of NATO's political will and military capability because the country has never experienced coherent governing authority. NATO forces must operate at great distances from the allies' home countries, and the stabilization effort may require years to succeed. There is a dispute among the allies over "national caveats," or restrictions that some governments have placed on their troops to prevent them from being used in combat, while other allies' troops are suffering casualties. At NATO's Riga summit in November 2006, the allies reduced but did not eliminate the caveats. Congress is likely to hold hearings on appropriations for Afghanistan's stabilization, efforts to combat the heroin trade there, and NATO's ability to achieve its mission.

CRS Report RL33627, *NATO in Afghanistan: A Test of the Transatlantic Alliance*, by Paul Gallis.

CRS Report RS22529, *The NATO Summit at Riga, 2006*, by Paul Gallis.

Russia. [Stuart D. Goldman, Specialist in Russian and Eurasian Affairs (7-7685)] The United States and Russia share several key areas of cooperation: agreement in principle that global terrorism, fueled by Islamic extremism, is the paramount security threat, which is exacerbated by the danger of WMD proliferation, which they also both oppose in principle; and possible major bilateral energy cooperation based on Russia's status as a huge oil and gas producer and exporter. Counterbalancing this are areas of tension, such as U.S. concerns about anti-democratic and anti-free-market trends under President Putin; Russian interference in Georgia, Moldova, and Ukraine; Russia's construction of a nuclear power reactor in Iran, and its reluctance to support sanctions to dissuade Iran from pursuing illicit nuclear activities. Russia in turn is troubled by U.S. and NATO influence ("interference") in many of the Soviet successor states and by what Moscow perceives as a "double standard" applied by the West to Russia. The Bush Administration generally has sought to emphasize cooperation with Russia — real and potential — and to de-emphasize areas of tension that might interfere with such cooperation, although 2006 saw a stiffening of Administration criticism of Moscow. Many in Congress have been less tolerant of worrisome Russian behavior. During the 109th Congress, bilateral problems appeared to reach a "tipping point" in which the negative aspects outweigh the prospects for cooperation.

Among the Russian issues that the 110th Congress is likely to address are Cooperative Threat Reduction (Nunn-Lugar) programs in, and other foreign aid to, Russia, and; the Jackson-Vanik Amendment and Russian accession to the WTO. In addition, Congress is likely to continue or even intensify its oversight of U.S. policy toward Russia concerning broad domestic political developments in that country and Russian relations with its neighbors.

CRS Report RL33407, *Russian Political, Economic, and Security Issues and U.S. Interests*, by Stuart D. Goldman.

CRS Report RS21123, *Permanent Normal Trade Relations (PNTR) Status for Russia and U.S.-Russian Economic Ties*, by William H. Cooper.

CRS Report RL32866, *U.S. Assistance to the Former Soviet Union*, by Curt Tarnoff.

Kosovo. [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. For more than a decade, the United States has provided significant aid and a substantial troop deployment to the Balkans in support of this goal. Both aid amounts and the U.S. troop commitment have declined in recent years, as the region has stabilized and more pressing U.S. foreign policy priorities have emerged. However, the disputed province of Kosovo remains the most difficult political problem in the Balkans. U.N.-brokered status talks in 2006 between the ethnic Albanian-dominated Kosovo government and Serbia made little progress, with the Kosovars demanding independence and Serbia adamantly rejecting it, preferring autonomy. U.N. mediator Martti Ahtisaari is expected to announce his proposed solution to the issue in the weeks after Serbia's January 21, 2007 parliamentary elections. Many observers believe that he will advocate terminating U.N. oversight over Kosovo (probably making way for a more limited EU and U.S. role) and opening the way to Kosovo's

independence from Serbia, most likely with conditions attached. A U.N. Security Council resolution may endorse these recommendations, although the scope of the resolution has not yet been determined. About 1,700 U.S. troops are deployed in Kosovo as part of a NATO-led peacekeeping force of some 16,000 troops. They are expected to remain there for some time after the status issue is resolved. However, as occurred in Bosnia, the force will likely be reduced or withdrawn when Kosovo is deemed sufficiently stable and secure.

The first session of the 110th Congress may consider legislation that addresses the status issue (perhaps including calls for early U.S. recognition of Kosovo's independence) as well as the post-status development of Kosovo and the region. Those favoring independence for Kosovo may say that the Congress should take a stand in favor of self-determination, the option favored by the ethnic Albanians in the province (who make up over 90% of the population). Opponents may argue that premature intervention could help nationalist extremists in Serbia, as well as destabilize the region.

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

Latin America

Overview. [Mark P. Sullivan, Specialist in Latin American Affairs (7-7689)] Legislative and oversight attention to Latin America and the Caribbean in the 110th Congress will likely focus on continued counternarcotics efforts, especially in the Andean region; potential immigration reform and increased border security, which have been key issues in relations with Mexico; efforts to deal with threats to democracy in such nations as Venezuela as well as the rise of populism in several Latin American countries; debate over the best means to foster political change in Communist Cuba; and trade issues, including the potential consideration of several free trade agreements (FTAs).

Curbing the flow of illicit drugs from South America into the United States has been a key component of U.S. relations with Latin America for almost two decades, and since 2000 the centerpiece of this policy has been the Andean Counterdrug Initiative (ACI) aimed at supporting Colombia and its neighbors in their efforts to eradicate the production of illicit drugs. Latin America has made enormous strides in term of political and economic democratic development over the past 25 years, with considerable U.S. support, but conditions such as persistent poverty, especially in Haiti, and the rise of a new form of populism in such countries as Venezuela, Bolivia, and Ecuador will continue to pose challenges for U.S. interests and policy in the region. The 110th Congress will also likely maintain an oversight interest in potential terrorist threats in Latin America, as well as efforts to counter the trafficking of persons in the region, the rise of violent gangs in Central America, and continued efforts against HIV/AIDS in the Caribbean, where infection rates in some countries are among the highest outside sub-Saharan Africa. With regard to trade, Congress could face consideration of implementing legislation for FTAs with Colombia, Peru, and Panama, which will be affected by the new political makeup of Congress as well as the scheduled expiration of fast track Trade Promotion Authority

(TPA) in July 2007. (Also see section above on “Trade” for more on TPA and FTAs).

CRS Report RL32733, *Latin America: Issues for the 109th Congress*, coordinated by Mark P. Sullivan.

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 110th Congress will be how to best support political and economic change in one of the world’s remaining Communist nations. Unlike past years, however, Congress will be examining policy toward Cuba in the context of Fidel Castro’s temporary, and potentially permanent, departure from the political scene because of health conditions, which could foster a re-examination of U.S. policy. Since the early 1960s, U.S. policy has consisted largely of isolating the island nation through comprehensive economic sanctions, including an embargo on most trade and financial transactions. A second component of U.S. policy has consisted of measures in support of the Cuban people, including private humanitarian donations, U.S.-sponsored radio and television broadcasting, and democracy promotion projects. The Bush Administration has significantly tightened economic sanctions, including restrictions on travel (especially family, educational, and religious travel), on the provision of private humanitarian assistance, and on payment terms for licensed U.S. commercial agricultural exports.

Although 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, or as part of a strategy of lifting sanctions incrementally in response to positive changes in Cuba. 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. While one or both houses have at times approved legislative provisions that would ease U.S. sanctions on Cuba, ultimately these provisions have been stripped out of the final enacted measures. President Bush has regularly threatened to veto various appropriations bills if they contained provisions weakening the embargo. The debate on policy toward Cuba will likely continue in the 110th Congress, and there could be increased oversight of various aspects of Cuba policy, including a review of U.S. democracy promotion efforts prompted by a recent Government Accountability Office report criticizing the management of such efforts for Cuba.

CRS Report RL32730, *Cuba: Issues for the 109th Congress*, by Mark P. Sullivan.

Colombia. [Colleen W. Cook, Analyst in Latin American Affairs (7-7901)] U.S. assistance to Colombia is likely to be an issue for the 110th Congress. Colombia is the sixth leading recipient of U.S. foreign assistance with more than \$560 million in assistance requested for FY2007. The United States provides assistance to Colombia through the Andean Counterdrug Initiative (ACI), which supports Plan

Colombia, a six-year plan developed by the Colombian government to combat Colombia's ongoing internal armed conflict and the drug trafficking which provides significant funding to leftist guerrillas and right-wing paramilitaries. Funding for ACI from FY2000 to FY2006 totaled more than \$5 billion. Colombia produces 70% of the world's supply of cocaine and over 90% of cocaine entering the United States. The leftist Revolutionary Armed Forces of Colombia (FARC) are believed to be participating in the drug trade, as are the remnants of the demobilized right wing paramilitary groups. The composition of U.S. assistance to Colombia may be considered by the 110th Congress in response to concerns about the effectiveness of current policies in reducing cocaine production. Congress has repeatedly expressed concern about 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 FARC; and the paramilitary demobilization process.

The 110th Congress is also likely to consider legislation to implement the U.S.-Colombia Trade Promotion Agreement, signed November 22, 2006. Once implemented, the agreement would eliminate duties on 80% of U.S. consumer and industrial exports to Colombia, and eliminate all tariffs within ten years. Both the labor and sugar provisions of the agreement are controversial. Critics of the agreement maintain that it will weaken worker rights. There is also concern that the agreement will adversely affect U.S. sugar producers because it significantly increases the U.S. quota on sugar imports from Colombia. Colombia currently benefits from trade preferences under the Andean Trade Preferences and Drug Eradication Act, which are due to expire on June 30, 2007.

CRS Report RL32250, *Colombia: Issues for Congress*, by Colleen W. Cook.

CRS Report RL33370, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2007 Assistance*, by Connie Veillette.

CRS Report RS22419, *U.S.-Colombia Trade Promotion Agreement*, by M. Angeles Villarreal.

Haiti. [Maureen Taft-Morales, Specialist in Latin American Affairs (7-7659)] The main issue for future U.S. policy regarding Haiti will be how to continue to improve security, promote economic development, and strengthen fragile democratic processes now that an elected government is in place. Haiti's priorities are many, and deeply intertwined; the Haitian government and the international donor community are implementing an interim assistance strategy that addresses its many needs simultaneously. The current challenge is to accomplish short-term projects that will boost public and investor confidence while at the same time pursuing long term development plans that will improve living conditions for Haiti's vast poor population and construct government institutions capable of providing services and stability. The Haitian government is working with international donors, including the United States, to develop a long-term poverty reduction plan. Donors are also looking at how to ensure transparency as they begin to provide funds directly to the government rather than through non-governmental organizations. On December 9,

2006, the 109th Congress passed a special trade preferences bill for Haiti (H.R. 6142, the Haitian Hemispheric Opportunity through Partnership Encouragement/HOPE Act of 2006, incorporated into H.R. 6111 as Title V). Supporters said the bill could generate 40,000 jobs in Haiti. Some U.S. textile interests opposed it because it would provide preferences to some garments with components originating in China and other parts of Asia. The incoming Senate Finance Committee Chairman reportedly promised to hold a hearing in the 110th Congress, before the HOPE act goes into effect, so that textile industry representatives may testify on the impact they say the bill will have (*National Journal*, Dec. 11, 2006).

The 110th Congress will likely consider the levels of support to provide for security enhancing measures in Haiti such as the U.N. Stabilization Mission in Haiti (MINUSTAH)'s disarmament, demobilization, and reintegration program, the Haitian government's Social Reconciliation Plan, and police and judicial reform. The Administration partially lifted the 15-year-old arms embargo against Haiti to allow arms and equipment to Haitian security units. Some Members have expressed concern about doing so before the Haitian police force has been vetted for those accused of human rights violations or other crimes. An Administration goal of limiting illegal immigration has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers. President Rene Preval, who was inaugurated on May 14, 2006 to a five-year term, has asked for U.S. support for public works projects, said he would cooperate fully with counter narcotics efforts, and urged the U.S. Congress to approve legislation providing preferential trade treatment to Haiti.

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

CRS Report RS21839, *Haitian Textile Industry: Impact of Proposed Trade Assistance*, by Bernard Gelb.

CRS Report RS21349, *U.S. Immigration Policy on Haitian Migrants*, by Ruth Ellen Wasem.

Mexico. [Colleen W. Cook, Analyst in Latin American Affairs (7-7901)]

Immigration and border security matters are likely to dominate U.S. interest in Mexico in 2007. The 109th Congress considered immigration reform, but did not enact any comprehensive reform measures. In September 2006, Congress approved the Secure Fence Act of 2006 (P.L. 109-367) to authorize the construction of a border fence and other barriers along 700 miles of the U.S.-Mexico border as well as \$1.2 billion in initial funding for fence construction through the FY2007 Department of Homeland Security Appropriations Act. During the 109th Congress, both the House and Senate approved immigration reform measures (H.R. 4437 and S. 2611, respectively), but were not able to resolve key differences in the bills. Principal sticking points included the House provision that would criminalize unlawful presence and Senate provisions to adjust the status of certain illegal immigrants. President Bush continues to express support for comprehensive immigration reform including increased border security, a guest worker program, and the normalization of status of some of the estimated 12 million illegal immigrants. Mexican President Felipe Calderón, like his predecessor President Vicente Fox, is critical of the border

fence, and has charged that economic development would be a more effective means to reducing illegal Mexican migration to the United States. Drug cartel violence in northern Mexico and Michoacán is also likely to be of concern to the 110th Congress. President Calderón has stated that cartel violence threatens the Mexican state.

Trade issues will also continue to be a concern. Mexico is the United States' second largest trading partner, and is a party to the North American Free Trade Agreement (NAFTA) along with Canada and the United States. The three countries are currently seeking to maintain competitiveness with other regions through the Security and Prosperity Partnership of North America (SPP). Resolution of trade disputes will continue to be a concern. An ongoing dispute involves granting Mexican trucks access to U.S. highways. Another long running dispute related to sugar and high-fructose corn syrup imports was recently resolved and Mexico has agreed to repeal its 20% tax on soft drinks made with high-fructose corn syrup (HFCS).

CRS Report RL32724, *Mexico-U.S. Relations: Issues for the 109th Congress*, by Colleen W. Cook.

Venezuela. [Mark P. Sullivan, Specialist in Latin American Affairs (7-7689)] Over the past several years, U.S. relations with Venezuela have deteriorated under the populist rule of President Hugo Chávez, with declining cooperation on anti-drug and anti-terrorism efforts. Moreover, U.S. officials have expressed concerns about the deterioration of democratic institutions and threats to freedom of speech and press under President Chávez, who was first elected in 1998, survived a recall effort in 2004, and was most recently re-elected to a six-year term in early December 2006. Administration officials also have expressed concerns about President Chávez's plans for military arms purchases, his relations with such countries as Cuba and Iran, and his efforts to export his radical brand of populism to other Latin American countries. Comments by both Venezuelan and U.S. officials have at times exacerbated tensions in the bilateral relationship, including in September 2006, when President Chávez spoke pejoratively of President Bush when addressing the U.N. General Assembly. A dilemma for U.S. policymakers has been how to press the Chávez government to adhere to democratic principles without taking sides in Venezuela's polarized political environment. Despite frictions in bilateral relations, Venezuela remains a major supplier of foreign oil to the United States, providing about 12% of crude oil imports. At various junctures, Chávez has threatened to stop selling oil to the United States, but Venezuelan officials assert that this would only be in response to aggression initiated by the United States. Nevertheless, some observers have raised questions about the security of Venezuela as a major supplier of foreign oil.

As over the past several years, the 110th Congress will likely focus on oversight hearings on conditions in Venezuela, energy security, and the overall status of bilateral relations and U.S. policy, with legislative initiatives likely focusing on funding for U.S. democracy and anti-drug initiatives in Venezuela, the human rights situation, and energy security.

CRS Report RL32488, *Venezuela: Political Conditions and U.S. Policy*, by Mark P. Sullivan.

Middle East

Overview. [Alfred B. Prados, Specialist in Middle East Affairs (7-7626)] Increasing disarray 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 110th Congress. In Iraq, U.S. and allied forces continue to battle a four-year insurgency that has escalated into what many describe as a civil war, pitting a mainly Sunni Arab opposition against a Shiite Arab-led regime, bolstered by a major U.S. military force commitment. The ethnically distinct Kurds, seeking to maintain the near independence they have enjoyed since 1991, further complicate efforts to build a unified state in Iraq. Iran's apparent pursuit of a nuclear weapons program continues to be a major U.S. concern, as do Iran's apparent attempts to meddle in Iraq's fragile political scene and that of Lebanon as well. Israeli-Palestinian peace-making endeavors have been deadlocked since January 2006, when the hard-line Palestinian faction Hamas won a large majority of seats in Palestinian parliamentary elections. Neither the United States, which has designated Hamas as a terrorist organization, nor Israel is prepared to deal with a Hamas-led Palestinian regime until it recognizes Israel's right to exist, renounces terrorism, and accepts previous Israeli-Palestinian agreements. During the summer, a month-long border war between Israel and the Lebanese Shiite Muslim militia Hezbollah (also designated by the United States as a terrorist organization) waged largely in Lebanon brought further instability to the region.

The 110th Congress is likely to assume a particularly active role in monitoring U.S. force deployments, military expenditures, and benchmarks for progress in the on-going conflicts in Iraq and to a lesser extent Afghanistan. Requests for supplemental funding to defray the costs of these conflicts are likely to come under close Congressional scrutiny. Congress is likely to show significant interest in recommendations emanating from several U.S. panels such as a bipartisan panel known as the Iraq Study Group, co-chaired by former Secretary of State James A. Baker, III and former Congressman Lee Hamilton. Released on December 6, the Iraq Study Group's recommendations include a major diplomatic effort to help bring about an end to the war, along with approaches to hostile countries like Iran and Syria which may have some influence with Hamas and Hezbollah. Previous congresses have not favored dealing with states that sponsor terrorism and there may be legislative initiatives to block any dialogue with Iran or any expansion of dialogue with Syria. On the other hand, Congress is likely to support, to varying degrees, U.S. dealings with more moderate regional states including Saudi Arabia, Jordan, and Egypt with some reservations (see below).

Syria and Lebanon. [Alfred B. Prados, Specialist in Middle East Affairs (7-7626)] An array of bilateral issues affect relations between the United States and Syria: Syria's opposition to U.S. military operations in Iraq; its desire for hegemony in Lebanon; its connections to Palestinian terrorist groups; Syria's possible pursuit of arms proliferation; and Syrian obstruction of Arab-Israeli peace negotiations.

Numerous U.S. legislative provisions and executive directives ban direct aid to Syria and restrict bilateral trade between the two countries, largely because of Syria's designation by the U.S. State Department as a sponsor of international terrorism. In particular, the U.S. government has demanded in recent years that Syria withdraw from and cease interfering in Lebanese affairs, stop the flow of arms and fighters to the insurgency in Iraq, and end its connections to Palestinian rejectionist groups like Hamas. Despite some steps by Syria to accommodate U.S. demands — increased patrols along the 375-mile Iraqi border, cooperation with the United States against Osama bin Laden's Al Qaeda organization (which Syria dislikes for its own reasons), and reestablishment of diplomatic relations with the U.S.-sponsored government of Iraq — Administration officials and some Members of Congress have increasingly favored use of additional economic and political sanctions to pressure Syria to end policies at variance with U.S. objectives. A recent example was the enactment of the Syria Accountability 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 even stricter sanctions.

Syria's dominant role in Lebanon, long a key U.S. concern, was shaken profoundly by the dramatic series of events triggered in February 2005 by the assassination of former Lebanese Prime Minister Rafiq Hariri, who had opposed some Syrian policies. The crime, widely blamed on Syria or Syrian agents, led to the withdrawal of Syria's 15,000-member military force in Lebanon under internal and international pressure; free elections in which an anti-Syrian bloc won a majority, and appointment of an anti-Syrian prime minister, Fouad Siniora. However, the pro-Syrian president remained in office; a pro-Syrian bloc led by Hezbollah won a substantial minority, and the prime minister found his efforts increasingly stymied by the powerful speaker of parliament, a Hezbollah ally.

The 34-day war between Israel and Hezbollah in the summer of 2006 enhanced the latter's prestige among many Lebanese and made it easier for Hezbollah to thwart provisions in several U.N. Security Council resolutions calling for disarming of Hezbollah and other militias in Lebanon. In the war's aftermath, Hezbollah and its allies demanded the dissolution of the Siniora cabinet and its replacement by a "government of national unity" in which the Hezbollah-led bloc would hold more than one third of the ministries, giving it an effective veto power.⁴ Tensions rose further in late 2006 as six members or supporters of Hezbollah resigned from the cabinet; the U.N. Security Council voted to establish an international tribunal to try suspects in the Hariri assassination — a step opposed by Hezbollah; an anti-Syrian member of the cabinet and leading Christian politician was assassinated; and a massive sit-in demonstration in central Beirut by supporters of Hezbollah and allied parties began on December 1 with the avowed intention of bringing down the Siniora government.

⁴ A minority of one third of the cabinet seats plus one additional seat would provide the Hezbollah bloc with effective veto power over cabinet decisions. Michael Slackman, "Lebanon Talks Collapse as Shiites Vacate Cabinet," *The New York Times*, November 12, 2006.

Congress has shown considerable interest in Lebanon over the years and has periodically addressed Lebanese issues in legislation. Congress is concerned over radical tendencies on the part of Syria and has frequently criticized Syrian efforts to exert influence in Lebanon, especially when such influence appears to threaten the security of Israel. Like the Administration, Congress widely condemned the assassination of the late Lebanese Prime Minister Hariri. During the 34-day Israel-Hezbollah fighting in mid-2006, both houses voiced support for Israel and for the efforts of the President to bring about an end to hostilities. The continued efforts of Hezbollah and its allies to increase their influence in Lebanon could affect future Congressional attitudes toward Lebanon, especially if a new or modified Lebanese regime appeared to threaten Israel. On the other hand, some Members of Congress seem disposed to increase Lebanon's ability to maintain internal and regional stability through a modest increase in economic support funds and a resumption of foreign military aid to the Lebanese Armed Forces.

CRS Report RL33487, *Syria: U.S. Relations and Bilateral Issues*, by Alfred B Prados.

CRS Report RL33509, *Lebanon*, by Alfred B. Prados.

U.S. Foreign Assistance to the Middle East. [Jeremy M. Sharp, Analyst in Middle Eastern Affairs (7-8687)] The 110th Congress may address the authorization, appropriation, and oversight of foreign assistance funds to countries in the Middle East, historically one of the largest regional recipients of U.S. aid. Excluding Iraq reconstruction funds, aid to Israel and Egypt accounts for almost 93% of all annual funding to the region. More recently, however, the United States has elevated the use of economic and security assistance in pursuit of other major U.S. interests in the region, including support for the “front-line” states in the war on terrorism, Iraq reconstruction, and broad regional economic and political reforms. Foreign Operations programs are currently operating under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289, as amended) which provides funding at the FY2006 or the House-passed FY2007 level, whichever is less. The continuing resolution expires on February 15, 2007.

Potential policy issues that may arise in the upcoming Congress include whether or not to shift or cut U.S. assistance to Egypt. Some lawmakers believe that U.S. military and economic aid to Egypt has not been effective in promoting reform, while others counter that reducing Egypt's aid would undercut the longstanding peace between Israel and Egypt. During House consideration of the last three foreign operations appropriations bills (fiscal years 2005-2007), there have been amendments offered to cut Egypt's aid, all of which failed by various margins.

CRS Report RL2260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends and the FY2007 Request*, by Jeremy M. Sharp.

CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

U.S. Assistance to the Palestinians. [Paul Morro, Specialist in Middle Eastern Affairs (7-1463)] Other issues that the 110th Congress may deal with concern aid to the Palestinians. Since the formation of the Hamas-led Palestinian Authority (PA) government on March 30, 2006, the United States has ceased providing both indirect and direct foreign aid to the Palestinians with the exception of some emergency humanitarian assistance and democracy and private sector promotion. In 2006, the United States spent approximately \$468 million of FY2006 and previously appropriated funds (\$277 million on humanitarian aid and \$191 million on democracy and private sector promotion), while the European Union, which also halted most of its assistance, will disburse \$815 million in humanitarian relief, all of which is intended to bypass the Hamas-led government.

In the 109th Congress, the House (on December 7, 2006) passed and sent to the President S. 2370, the Senate version of the Palestinian Anti-Terrorism Act of 2006 (passed June 23, 2006), which bars aid to the Hamas-led Palestinian government unless, among other things, it acknowledges Israel's right to exist and adheres to all previous international agreements and understandings. The act exempts funding for humanitarian aid and democracy promotion. It also provides \$20 million to establish a fund promoting Palestinian democracy and Israeli-Palestinian peace. The earlier House version of the bill (H.R. 4681) was seen by many observers as more stringent and would have made the provision of U.S. aid to the Palestinian Authority more difficult, even if Hamas relinquishes power. H.R. 5522, the FY2007 Foreign Operations Appropriations bill (passed on June 9, 2006), includes no appropriation for Economic Support Fund (ESF) programs in the West Bank and Gaza Strip. ESF funds in the region are generally channeled through either international organizations or NGOs. The Senate version of H.R. 5522 (not enacted) recommends appropriating \$25 million for ESF programs in the West Bank and Gaza and rescinds \$75 million in prior year appropriated funds. Foreign Operations programs are currently operating under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289, as amended) which provides funding at the FY2006 or the House-passed FY2007 level, whichever is less. The continuing resolution expires on February 15, 2007. In FY2006, Congress appropriated \$150 million for USAID's West Bank and Gaza program, though much of that has since been suspended.

CRS Report RL22370, *U.S. Foreign Aid to the Palestinians*, by Jeremy M. Sharp and Christopher M. Blanchard.

Iraq: Regional Implications. [Christopher M. Blanchard, Analyst in Middle Eastern Affairs (7-0428)] Developments in Iraq have direct political, economic, and security implications for Iraq's neighbors and the broader Middle East. Moreover, Iraq's neighbors can and do directly affect conditions in Iraq. Looking forward, Iraq's neighbors are likely to respond differently to potential developments in Iraq, such as the escalation of sectarian violence into outright civil war or the withdrawal or substantial redeployment of U.S. and coalition military forces. Regional perspectives on the conflict in Iraq and the potential nature and likelihood of regional responses to U.S. policy choices will be relevant to Members of the 110th Congress as they consider the recommendations of the Iraq Study Group, new Administration policy proposals, and an expected FY2007 supplemental appropriations bill. Principal concerns include alleged Iranian political, financial,

and military support of various Iraqi Shiite political parties and militia groups; Turkish apprehension about the future of northern Iraq's Kurdish population and a potential bid for Kurdish independence in the event of wider internal conflict; and, Sunni Arab states' anxiety about the fate of Iraq's minority Sunni population, whether as part of a unified democratic government or in the event of continuing sectarian conflict. Common longer term concerns focus on the eventual reintegration of a deeply changed Iraq into the regional strategic balance and global economic and energy markets.

In addition, regional security problems will continue to complicate U.S. policy efforts in Iraq during the term of the 110th Congress, such as the Israeli-Palestinian conflict, the enduring threat of transnational Islamist terrorism, Iran's nuclear development efforts, and the ongoing political crisis in Lebanon. Some regional experts have argued that in order for the United States and its regional counterparts to reach a sustainable reconciliation and find a lasting solution in Iraq, related regional crises also must be addressed comprehensively and simultaneously with Iraq. For example, the Iraq Study Group report states its members' judgment that, "the United States cannot achieve its goals in the Middle East unless it deals directly with the Arab-Israeli conflict and regional instability." Relations with each of Iraq's neighbors poses particular challenges for the United States, especially with Iran and Syria, who remain designated state sponsors of international terrorism under U.S. law, a fact that may hamper diplomatic efforts to engage their respective governments.

Defense and Security

Overview: Defense Strategy and Military Force Planning [Pat Towell, Specialist in the U.S. Defense Budget (7-2122)]

One way for Congress to assess current U.S. defense strategy and force planning would be to review the Congressionally-mandated Quadrennial Defense Review (QDR) published in February 2006, which was the first formal, public reassessment of U.S. military requirements since the attacks of September 2001 and the subsequent U.S. combat operations in Afghanistan and Iraq. The review asserted that where and when U.S. forces would be deployed in the future was uncertain and unpredictable, but that they could confront four types of threats. In addition to what the QDR called *traditional* threats — the type of large-scale combat against mechanized forces in which U.S. forces generally are held to be without peer — the review identified three other types of threats that the Defense Department, heretofore, has largely discounted: *unconventional* threats relying on terrorism and guerrilla operations; *catastrophic* attacks on operationally critical or high-value targets using weapons of mass destruction; and *disruptive* attacks that could nullify key elements of U.S. power that may be vulnerable to attack by cyber-warfare, biotechnology or other novel technologies.

After evaluating the document's analysis of the range of military threats currently confronting the country, Congress can judge how well the Bush Administration's plans for organizing and equipping U.S. forces, as reflected in its fiscal 2008 budget request, address contemporary security challenges.

In the first decade after the end of the Cold War, from 1989 to 1999, the end-strength of the active-duty force dropped steadily from 2.1 million to 1.4 million, while force structure dropped by roughly the same magnitude, with the number of active-duty Army divisions dropping from 18 to 10, for example. But that downsized force was, largely, a scaled-down version of the force designed to fight the Soviet Union — a force which in 1991 had easily dominated Iraqi forces organized and equipped along Soviet lines.

The September 2001 version of the QDR — which was substantially drafted before the attacks of September 11 although published after that date — mandated that forces be prepared to defend the homeland, to deter threats in four widely separated regions and swiftly defeat two major attacks on allies or countries of interest, defeating one of those attackers decisively enough to change its regime. While this so-called “1-4-2-1” construct was not tightly coupled to wide-ranging changes in force structure, the document appeared after the Office of the Secretary of Defense had begun promoting the “transformation” of U.S. forces — particularly those oriented toward ground combat — into smaller, more agile units that could be deployed more readily than existing formations.

The February 2006 QDR, is seen by some as the most significant effort to reconceptualize the national security threat environment since the end of the Cold War more than 15 years ago. It revised some assumptions that had undergirded strategy and force planning. For instance, it stipulated that forces should place as high

a priority on being able to stabilize a country after conflict as on being able to win the fight in the first place. It also endorsed some ongoing organizational changes, such as the Army's modularity plan and the Navy's Fleet Response Plan, intended to increase the agility and responsiveness of the force. In addition, the review called for some program initiatives keyed to threats other than traditional, large-scale combat, including a 15% increase in the number of Special Operations Forces, to better deal with guerrillas, terrorists and other unconventional threats; a \$1.5 billion five-year program to develop defenses against synthetically tailored bio-weapons; and an acceleration by nearly 20 years — to 2018 — of the target date for fielding a new, long-range strike weapon that could supplant aging bombers.

However, this QDR raises some challenging questions about whether the Administration is budgeting adequately for the very diverse capabilities that would be needed to carry out its ambitious repertory of tasks. The review stipulates that U.S. forces should be able to remove a country's hostile regime and then set conditions for the restoration of civil society; but it eschews any call for enlarging the force, despite the indications that U.S. forces — particularly the active-duty and reserve components of the Army — are severely strained by the effort to pacify Iraq.

Moreover, although it acknowledges that U.S. forces clearly would dominate any adversary in conventional warfare, the QDR also calls for continuing the acquisition of some very expensive weapons programs, including the Army's Future Combat Systems, the Navy's DD(X), and the tri-service F-35 Joint Strike Fighter, all of which are viewed by many analysts as chiefly relevant to conventional warfare. Given the severe budget constraints the Defense Department may face, Congress may want to consider whether this investment portfolio should be altered both to meet overall budget limits and to meet the more novel threats that the QDR outlines.

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, and particularly spending for the wars in Iraq and Afghanistan, will be one of the first major issues on the agenda in the opening weeks of the 110th Congress, and may be among the most difficult. Beginning the first week of February, Congress will be faced with three very large requests for funding for defense programs, including (1) the regular FY2008 defense budget request, expected to total \$490 billion or more; (2) a request for some or all of the projected additional costs of operations in Iraq, Afghanistan, and elsewhere in FY2008; and (3) a request for additional emergency supplemental appropriations to cover costs of operations in Iraq and Afghanistan through the remainder of FY2007 — Congress approved a down payment of \$70 billion last Fall, but it appears that much more will be requested for the rest of the year. Two issues, in particular, may be matters of immediate controversy.

One issue is whether the Administration will comply with the McCain amendment to the FY2007 national defense authorization act that requires the

President to submit an estimate of full, year-long FY2008 costs of operations in Iraq and Afghanistan when the regular FY2008 budget request is submitted. The amendment received very broad support last year, particularly in the Senate. But senior Bush Administration officials have complained that accurate full-year projections are not possible. Now, however, Senator McCain and other senior Members of the defense committees appear insistent on following the practice during earlier wars, including Korea and Vietnam, in which costs of ongoing military operations were considered through the regular defense authorization and appropriations process. In the absence of full year funding estimates from the Defense Department, Congress may undertake to provide full-year funding anyway.

The second issue is how Congress will react to what reportedly will be a very large request for additional emergency funding in FY2007 — and perhaps also in FY2008 — not only to cover directly related costs of operations in Iraq and Afghanistan, but also to make up equipment and personnel shortfalls that the services believe are related to carrying on what the Bush Administration refers to as a “long war” against global terrorism. In the past, emergency funding requests have been approved mainly to cover unplanned costs of overseas military operations. The cost of equipping and training the force for long-term requirements, in turn, has been addressed in the regular defense budget. Now, however, Army leaders say that the Iraq war has revealed some very large, long-term shortfalls, including a need for more force protection, transport, and communications equipment, for more personnel for specific missions, and for much fuller equipping of national guard and reserve units that are integrated into the rotation base. The other services have also, in turn, highlighted their own shortfalls.

It would be hard to accommodate funding to address these additional requests within the regular defense budget, however, because the regular budget has to fit within overall Congressional caps on total discretionary spending. So it now appears that the Defense Department will request very large amounts — tens of billions this year and more in years to come — in the emergency accounts as a means of avoiding constraints on regular spending.

To some budget analysts, this appears to represent a fundamental breakdown of budget discipline. At the same time, there has been very strong support in Congress in recent years for adding funds to meet any apparent shortages of equipment for the military services, particularly for the war. In recent years, Congress has added large amounts for force protection equipment, and last year Congress pushed the Army and Marine Corps to identify all the costs of repairing, replacing, and updating their equipment for Iraq and Afghanistan. Many Members of Congress have also complained about reported shortfalls of training equipment for troops preparing to deploy abroad and for units that are relied upon as a strategic reserve in case of a crisis elsewhere. Some Members of Congress have supported adding substantially to the number of ground forces to ease strains on personnel.

All of these measures, however, may cost a lot of money at a time when Congress is also concerned about reining in the budget deficit and meeting pent up demand in some other parts of the government. The issue of trade-offs between guns and butter and taxes may well be forced onto the Congressional agenda very early in the new session.

CRS Report RL33405, *Defense: FY2007 Authorization and Appropriations*, by Stephen Daggett.

CRS Report RS22455, *Military Operations: Precedents for Funding Contingency Operations in Regular or in Supplemental Appropriations Bills*, by Stephen Daggett.

CRS Report RL33571, *The FY2007 National Defense Authorization Act: Selected Military Personnel Policy Issues*, by Charles A. Henning, David F. Burrelli, Lawrence Kapp, and Richard A. Best Jr.

Military Base Closure, Realignment, and Expansion

[Daniel H. Else, Specialist in National Defense, (7-4996)]

The President has indicated his intention to ask the 110th Congress to devote the bulk of the annual military construction appropriation to support the implementation of the 2005 base realignment and closure (BRAC) round. Annual budget authority requests for military construction for Fiscal Years 2008 and 2009 are projected to exceed \$12.6 billion, almost twice that of FY2004, primarily because of BRAC requirements. In addition, some local jurisdictions in districts where installations are gaining new defense missions and personnel have found that their existing transportation, housing, utility, and education infrastructure is unable to absorb the anticipated demand for services and have approached Congress for assistance. Likewise, jurisdictions from which significant numbers of defense-related jobs will be moved or eliminated have appealed to some Members for special assistance in job training and economic redevelopment planning. It is likely that constituents will continue to invite some Members' attention to these issues throughout the 110th Congress.

In late 2005, the Defense Base Closure and Realignment Commission (commonly known as the BRAC Commission) recommended, and the president approved, the closing of 22 major military installations in the substantial modification of work and an additional 33. As required by the Defense Base Closure and Realignment Act of 1990 (10 USC 2687 note, as amended), the various military departments (Army, Navy, and Air Force) have begun to implement these recommendations, with a statutory deadline for completion of September 15, 2011. While BRAC itself affects only installations located on U.S. territory, the Department of Defense (DOD) has included the redeployment of 60,000 — 70,000 troops from Cold War-era overseas garrisons to domestic installations in a comprehensive force restructuring. The current BRAC round, therefore, is perhaps the largest-scale and most intense and complex movement of forces and supporting activities undertaken since the end of the Second World War.

The execution of the 2005 BRAC round will follow a three-phase process of planning, construction, and movement. The planning phase, involving the creation of more than 200 separate and coordinated programs, is nearly complete. Funding for the construction phase, which will require some installations to absorb the creation of hundreds of millions of dollars of new structures and the associated transportation, communications, and utility service infrastructure, would require appropriations during the 110th Congress. The movement phase, which of necessity follows the

conclusion of planned construction, will commence during late FY2009 and continue to the date of completion.

Necessary military construction and domestic troop movements are funded through the BRAC 2005 account within the military construction title of the annual Military Construction/Military Quality of Life, Veterans Affairs and Related Agencies appropriation. Other BRAC-related activities funded from this account include property transfers, movement and closure expenditures, environmental remediation (including disposal of toxic waste and unexploded ordnance), among others. Community adjustment and redevelopment efforts attended to BRAC actions are supported by other programs funded through Department of Defense, Department of Commerce, and Department of Labor appropriations.

Congress will consider annual appropriations requested by the president to implement these BRAC actions. DOD has maintained that, because the nature of warfare and the necessary structure of forces are constantly changing, there will be a continuing need to adjust the location and nature of the supporting defense installations every five to ten years. Since the only statutory authority to undertake such an adjustment resides in the BRAC, which requires specific Congressional authorization, Congress may also consider new legislation to enhance implementation oversight of the current round and the authorization of a future round. The current BRAC round was authorized in the defense authorization act for FY2002.

CRS Report RS22147, *Military Base Closures: Socioeconomic Impacts*, by Tadlock Cowan and Baird Webel.

CRS Report RS22184, *Military Base Closures: Redevelopment Assistance Programs*, by Baird Webel.

CRS Report RS22065, *Military Base Closures: Role and Costs of Environmental Cleanup*, by David M. Bearden.

Intelligence

[Richard Best, Specialist in National Security, (7-7607)]

A key question in the discussions that led up to passage of the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458) was how best to define in statute the relationship between the Director of National Intelligence (DNI) and the important national intelligence agencies within the Department of Defense (DOD). These agencies — the National Security Agency (NSA), the National Reconnaissance Office (NRO), and the National Geospatial-Intelligence Agency (NGA) — have large budgets and collect and, to some extent, analyze vast quantities of data in response to tasking from the DNI. At the same time they provide intelligence directly to DOD's combatant commanders. They are thus integral parts of both the national Intelligence Community and military commands. These dual responsibilities — with the potential for having to meet different priorities — present many challenges to senior officials in the executive branch and to many Members of Congress in undertaking oversight of the Nation's intelligence effort. There are difficult questions about new surveillance systems, especially satellites and unmanned aerial

vehicles (UAVs), that have major budgetary implications for years and will affect the future of the defense industrial base. Also crucial is the availability of information systems that will permit intelligence to be shared in a real-time basis without jeopardizing sources and methods.

There are other concerns about the role of DOD in collecting human intelligence (humint) which, according to some observers, may overlap or conflict with clandestine collection by the Central Intelligence Agency (CIA). Congress has considered but not enacted statutory provisions that would provide authority for the Director of the CIA to direct humint collection by any agency outside the U.S. In addition, questions have been raised regarding counterterrorism missions undertaken by DOD special forces and whether they are equivalent to covert actions that fall under the provisions of the National Security Act.

CRS Report RL33539, *Intelligence Issues for Congress*, by Richard A. Best, Jr.

CRS Report RL32508, *Intelligence, Surveillance, and Reconnaissance (ISR) Programs: Issues for Congress*, by Richard A. Best, Jr.

CRS Report RL33715, *Covert Action: Legislative Background and Possible Policy Questions*, by Alfred Cumming.

CRS Report RS22017, *Special Operations Forces (SOF) and CIA Paramilitary Operations: Issues for Congress*, by Richard A. Best, Jr. and Andrew Feickert.

Special Operations Forces

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

U.S. Special Operations Forces (SOF) play a leading role in current military operations. SOF are operating at a very high tempo world-wide. The 2006 Quadrennial Defense Review (QDR) has called for 15% increase in special operations forces beginning in FY2007 and some question how an expansion of Army Special Forces by one additional battalion per Special Forces Group, and an increase in the numbers of Navy SEALs can be achieved without relaxing the demanding selection and qualification standards that have long been the hallmark of these units. The Marines are also in the process of standing up a 2,600 strong Marine Special Operations Command (MARSOC) which will have the capability to conduct foreign military training as well as direct action missions. Classified Special Mission Units (SMUs) conduct classified and covert special operations missions - often referred to as "black" operations - and there has been concern expressed by some officials that the Administration and U.S. Special Operations Command (USSOCOM) may be placing undue emphasis on these SMUs and their activities at the expense of Army Special Forces and other special operations units that conduct "white" unclassified operations such as foreign military training and unconventional warfare.

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

Defense Modernization and Weapon Systems

Army Modernization. [Andrew Feickert, Specialist in National Defense, (7-7673)] The 110th Congress will face a wide range of issues regarding Army modernization dealing with the pace and effectiveness of organizational restructuring, competing fiscal requirements for equipment procurement and repair, and oversight of an ambitious equipment development and acquisition program.

Modularity: The Army is involved in a total organizational transformation that it believes will enable it to better meet current and future operational requirements. The Army is currently redesigning its 10 active duty division force to a 42 brigade-level force. The National Guard and Reserves are to also convert to a brigade-centric force over time. This redesign effort, as well as associated restructuring and stabilization initiatives, are intended to sustain both the active and reserve Army through potentially long-term, manpower and resource intensive wars in Iraq and Afghanistan. Some reports suggest, however, that these new “modular” brigade combat teams (BCTs) do not have all required equipment - including key battle command systems - and may also be experiencing selective personnel shortages. Some maintain that these equipment and personnel shortages, further impacted by the lack of a third infantry or heavy battalion in the BCT force structure, have resulted in the new modular BCTs being less operationally effective than the previous division-based combat brigades.

Equipment Reset: The wars in Iraq and Afghanistan have taken a significant toll on the Army’s equipment. The Army is involved in a substantial equipment reset program to repair and replace equipment damaged or lost in combat and also to recapitalize equipment for future use. The Army predicts that it will require from \$12 to \$13 billion a year for reset throughout the duration of the current conflicts and for two to three years after the conflicts conclude. The Army has chosen to keep significant quantities of equipment in theater and to defer some reset activities until the war in Iraq concludes and significant number of troops return home. This decision has created not only maintenance and equipment availability issues, but also readiness issues as many units do not have sufficient equipment to train with. These policy decisions have had a particularly severe impact on National Guard units that have a domestic mission as well.

Future Combat System (FCS): The Army’s primary modernization program, the Future Combat System or FCS, is a \$117 billion-plus research, development, and acquisition program envisioned to consist 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 conceptual in nature. The Army intends to eventually field up to 15 FCS-equipped brigades. The Army plans to start “spiraling” out selected FCS technologies to the current force in FY2008, but the first fully-equipped FCS brigade will not be fielded until FY2014. The Army is reportedly considering “slowing” the FCS program due to budgetary pressures and cuts. Potential changes include cancelling or deferring individual platforms - most likely unmanned aerial and ground vehicles -

and possibly slowing the equipping of FCS brigades from two brigades per year to one brigade a year.

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

CRS Report RL32888, The Army's Future Combat System (FCS): Background and Issues for Congress, by Andrew Feickert.

Navy Shipbuilding . [Ronald O'Rourke, Specialist in National Defense (7-7610)] Navy shipbuilding has been a defense-acquisition item of interest for Congress since the early 1990s. The defense-oversight committees have been particularly concerned about the adequacy of the Navy's shipbuilding rate, the cost and affordability of new Navy ships, and the health of the shipbuilding industrial base. The Navy in 2006 introduced a new ship force structure plan that calls for achieving and maintaining a 313-ship fleet. The Navy in 2006 also submitted to Congress an annually required 30-year shipbuilding plan. The 30-year plan does not contain enough ships to fully support all elements of the 313-ship fleet consistently over the long run — deficiencies include one amphibious ship, four cruise missile submarines (SSGNs), eight attack submarines (SSNs), and (when calculated on a 35-year basis) 26 cruisers and destroyers. The Navy, moreover, says that for this 30-year shipbuilding plan to be affordable and executable, five things need to happen regarding the size and composition of the Navy's budget and future shipbuilding costs. Observers have questioned whether these things will happen, and thus whether the 30-year shipbuilding plan will be affordable and executable.

In February 2007, the Navy is to submit a proposed FY2008 budget that is expected to include requests for funding to procure one aircraft carrier (advance procurement funding for which has been approved by Congress every year since FY2001), one SSN, two DDG-1000 destroyers that were procured in FY2007 with partial funding, three Littoral Combat Ships (LCSs), one LPD-17 class amphibious ship (the final one planned in the class), and (through the National Defense Sealift Fund) one TAKE-1 class auxiliary cargo ship. These individual ship programs may not be as significant a matter of debate as the question of the overall rate and affordability of Navy shipbuilding. The Navy in early 2007 is also expected to submit to Congress a report on the potential for applying nuclear propulsion to a wider array of the Navy's surface ships — an issue in which the House Armed Services Committee expressed an interest in 2006.

CRS Report RL32665, *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)] A three-year multiyear procurement (MYP) contract for 60 F-22A Raptors was authorized by the 109th Congress. Monitoring this MYP's compliance with the governing statute (10 USC §2306b) will fall upon the 110th Congress. Rate of production, program risk, and funding of government liabilities may become issues. The F-35 Joint Strike Fighter (JSF) is the largest aviation program in terms estimated cost (\$276 billion) and numbers (2,458 aircraft).

Development challenges have added cost and delayed production. DoD has determined that it requires no additional C-17 Globemaster strategic airlifters beyond the 180 under contract. Critics argue that without additional orders the C-17 line would close due to lack of business. The 109th Congress added \$2 billion to the program and directed DoD to continue producing the C-17 beyond 2008. At issue is how many C-17s should be built and whether DoD can afford to purchase and operate them. Adjudicating a rift between the Army and the Air Force over the fielding of a short-range Joint Cargo Aircraft will also confront the 110th Congress. The consensus view is that DoD sorely needs to replace its aging fleet of KC-135 aerial refueling aircraft. A replacement program — the KC-X — is in its early stages. At issue is what size aircraft should be acquired and what mix of capabilities is optimal. Also, the number of aircraft to be procured is a question and whether DoD can afford to purchase 500 aircraft, as it plans, or augment a smaller purchase with less capital intensive measures. On the recommendation of the 2006 Quadrennial Defense Review (QDR), the Air Force is initiating a program to field a new long-range bomber by 2011. At issue are the number of bombers to be procured, their capabilities, and how they will be funded.

CRS Report RL33543, *Tactical Aircraft Modernization: Issues for Congress*, by Christopher Bolcom.

Ballistic Missile Defense. [Steven Hildreth, Specialist in National Defense (7-7635)] Ballistic Missile Defense (BMD) remains the largest acquisition program in the defense budget. Congress largely supports the U.S. BMD program and has appropriated about \$106 billion for BMD since the start of the Reagan Administration's Strategic Defense Initiative (SDI) program in FY1985. For FY2007, Congress appropriated \$9.3 billion. Congress also has played a major role in developing BMD policy and direction, and provided varying degrees of oversight of BMD programs and management during this time. In the past several years defense committees have expressed some concern over BMD testing in general and have reduced funding for some longer lead BMD procurement of technologies and systems with more ambiguous testing successes. During the 109th Congress, the Department of Defense deployed a National Missile Defense (NMD) capability in Alaska and California. During the 110th Congress, Members might expect debate over funding an expected BMD budget request of about \$10 billion, whether to fund deployment of a third NMD site in Europe, as well as oversight of programs that have witnessed years of program delays such as the Airborne Laser (ABL) and development of a new Kinetic Energy Interceptor (KEI — a common land/sea interceptor), while the effectiveness of current deployed systems remains uncertain.

CRS Report RS21473, *Kinetic Energy Kill for BMD: A Status Overview*, by Steven A. Hildreth.

CRS Report RL32123, *Airborne Laser (ABL): Issues for Congress*, by Christopher Bolcom and Steven A. Hildreth.

Reliable Replacement Warhead (RRW) Program. [Jonathan Medalia, Specialist in National Defense, (7-7632)] Most current U.S. nuclear warheads were built in the 1970s and 1980s. The National Nuclear Security Administration (NNSA)

maintains them with a Life Extension Program (LEP), but expects the accretion of minor changes in replacement components to reduce confidence in warheads over the long term. Congress mandated the RRW program in 2004 “to improve the reliability, longevity, and certifiability of existing weapons and their components.” Its first step is a design competition; the winning design is to be selected in the near future. RRW supporters claim that NNSA will be able to maintain RRWs over the long term; LEP supporters argue that the current LEP program can effectively maintain existing warheads, and that the absence of testing will reduce confidence in RRWs. Others maintain that the scientific tools used to design RRWs have not been directly validated by nuclear tests, and that LEP-induced changes weaken the link between current warheads and the original tested designs, so that a resumption of nuclear testing is the only way to maintain confidence in the stockpile. There are several issues for Congress. Will LEP or RRW better maintain the nuclear deterrent for the long term, or is a return to nuclear testing needed? Which is likely to cost more, LEP or RRW? RRW is designed to offer more safety and protection against unauthorized use, but how much is enough? Should the nuclear weapons complex be reconfigured to support RRW? How can Congress evaluate the alternatives?

CRS Report RL32929, *Nuclear Weapons: The Reliable Replacement Warhead Program*, by Jonathan Medalia.

Military Personnel

Recruiting and Retention. [Charles A. Henning, Specialist in National Defense (7-8866)] It is anticipated that the 110th Congress will continue to closely monitor military recruiting and retention performance, both officer and enlisted, and possibly adjust the incentives as necessary to favor success.

Recruiting and retention are complementary military functions with both focused on meeting the manpower and skill needs of the services. Recruiting brings new service members into the military from civilian life while retention keeps trained and qualified military personnel in the military beyond their original obligated term of service. The scope of these efforts is significant. The Active Component (Army, Navy, Air Force and Marine Corps) recruits approximately 175,000 personnel annually and strives to retain those needed for future leadership responsibilities.

With ongoing operations in Iraq, Afghanistan and other worldwide deployments in support of what the Bush Administration refers to as the Global War on Terror, some analysts have anticipated that extended and frequent deployments, repeated family separations and growing public dissatisfaction with the war effort would have a negative impact on recruiting and retention. Others have argued that adding additional recruiters to the force and enhanced benefits, incentives and bonuses would continue to ensure a viable all-volunteer force for the future and support the Congressionally authorized increase in Army end strength from 482,400 to 512,400.

Media attention and Congressional interest have focused on Army recruiting. In FY2005 the Army established a recruiting goal of 80,000 but recruited 73,378; a shortfall of 8% and the first time in 26 years that the Army had missed its annual goal. The recruiting challenge was exacerbated by the low number of recruits in the

Delayed Entry Program (DEP), those individuals who have signed a contract to join the military but who have not yet “shipped” to basic training. At the beginning of FY2005, the DEP represented 18 percent of the FY2005 accession goal; the Army attempts to have 25 to 35 percent of recruits in the DEP at the beginning of any fiscal year.

To support the FY2006 Army accession goal (again 80,000), Congress authorized doubling the maximum enlistment bonus from \$20,000 to \$40,000, raised the maximum enlistment age from 35 to 42, and established a variety of other financial incentives to enhance recruiting. Some of these included incentives for former soldiers to return to active duty, bonuses for serving soldiers who refer others to a recruiter, and inter-service transfers from services that are reducing personnel. The Army increased the number of recruiters by 1,200 (to a total of 8,400), incrementally allowed additional moral waivers for misdemeanor offenses and slightly relaxed the aptitude standards and tattoo prohibitions.

For FY2006, all active component services met or exceeded their recruiting goal, bringing in over 180,000 new service members into the military. For the reserve components, the Marine Corps Reserve and Air Force Reserve met or exceeded their annual goals, the Army National Guard and Air National Guard barely missed their targets with 99% and 97%, respectively, and the Army Reserve (95%) and Navy Reserve (87%) fell short of their accession goals.

Retention was also successful in FY2006. For the active component, only the Navy missed its retention goal while the other services met or exceeded the goals in every category. The Navy attributed their problems to an emphasis on physical fitness test performance that resulted in higher re-enlistment disqualification.

While military leaders and analysts consider FY2006 to be a generally successful year for recruiting and retention, they believe that FY2007 will be a challenge. The Army’s DEP, for example, remains a weakness with only 12,079 (about 15 percent of the FY2007 mission of 80,000) contracted soldiers to start the new fiscal year. Recruiting targets/goals have remained high: 80,000 for the Active Army for the third straight year, 70,000 for the Army National Guard and 26,500 for the Army Reserve. With high targets, a strong economy and over 140,000 servicemembers deployed to OIF and OEF, analysts anticipate a challenging year.

Various media have claimed that the Army has lowered quality standards by accepting fewer High School Diploma Graduates (HSDG) and accepting up to 4 percent of the annual accession cohort from the lowest mental category (Cat IV). These changes, according to the Army, do not appear to have led to a significant degradation in quality. In addition, more waivers are being granted for moral and medical conditions that previously would have precluded enlistment.

A related emerging challenge for the Army involves the recruiting and retention of officers. Officer production from the Reserve Officer Training Corps (ROTC) has missed the goal for the past two years and attrition by West Point graduates completing their active duty obligation has increased dramatically to over one-third of the original graduating class. The Army currently projects a shortage of nearly 3,700 captains and majors by FY2008.

CRS Report RL32965, *Recruiting and Retention: An Overview of FY2005 and FY2006 Results for Active and Reserve Component Enlisted Personnel*, by Lawrence Kapp.

CRS Report RL33518, *Army Officer Shortages: Background and Issues for Congress* by Charles A. Henning.

Reserve Component Benefits. [Charles A. Henning, Specialist in National Defense (7-8866)] Over the past several years, Congress has been sensitive to the evolving operational role of the reserve components and has, when seen as appropriate and equitable, focused on equalizing military benefits between the active and reserve components. One major remaining issue is the reserve retirement age. Proposals to lower the age at which retired reservists begin drawing retired pay (currently age 60) generated significant interest in both the 108th and 109th Congress but were not enacted into law. The 110th Congress may face this issue again early in the first session.

As noted in the 2006 Quadrennial Defense Review (QDR), “During the Cold War, the Reserve Component was used, appropriately, as a ‘strategic reserve’ ... (however) the Reserve Component must be operationalized, so that select reservists and units are more accessible and more readily deployable than today.” This transition from strategic to operational reserve has been vividly demonstrated since September 11, 2001 as more than 400,000 reserve component personnel have been called to active duty and deployed in support of Operations Iraqi Freedom (OIF) and Enduring Freedom (OEF).

Both the 108th and 109th Congresses enacted a number of significant changes focused on equalizing benefits between the active and reserve components. First, TRICARE health care coverage will be expanded (by the end of September 2007) to include all reservists and their eligible family members, with participants required to pay 28% of the estimated premiums. Second, educational assistance for reservists has been expanded under a new program called the Reserve Educational Assistance Program (REAP). Reservists are not required to contribute and will receive benefits for full-time study for up to 36 months. The amount of the monthly benefit is based on a three-tiered percentage of the Montgomery GI Bill Active Duty benefit—40, 60, or 80 percent—as determined by the amount of time the reservist has spent on active duty. Recently, DOD and the Department of Veterans Affairs formed a task force to consider a “Total Force GI Bill” to enhance benefits and make program participation for active and reserve servicemembers more consistent and equitable. Finally, in order to preclude financial hardship as reservists transition from civilian jobs to full-time military status, Congress has enacted a provision that provides a monthly special payment of up to \$3,000. Eligibility is based on the amount of time spent on active duty and favors those who have experienced lengthy, frequent periods of involuntary active duty.

CRS Report RL33571, *The FY2007 National Defense Authorization Act: Selected Military Personnel Policy Issues*, by Charles A. Henning, Richard A. Best, Jr., David F. Burrelli and Lawrence Kapp.

Military Medical Care. [Richard Best, Specialist in National Defense, (7-7607)] A major concern in the 109th Congress was military care for the reserve components. A number of initiatives were considered to enable reservists to obtain medical care prior to and subsequent to serving on active duty (they have always had a full benefit while on active duty). A complex three-tiered benefit for reservists returning from active duty was enacted in 2005 as part of the FY2006 National Defense Authorization Act, but the 109th Congress replaced it with a significantly expanded medical benefit available to all drilling reservists and National Guardsmen. By the end of September 2007 all reserve component members in a drilling status will have access to TRICARE if they agree to pay 28 percent of the costs of the benefit. Congress may choose to oversee the introduction of this new benefit as it will affect reservists throughout the country.

A key concern for Defense Department policymakers has been the growth in the costs of Defense health care estimated to reach \$64 billion by 2015. The increasing medical budget in large measure derives from changes enacted in 2000 to establish Tricare for Life which supplements Medicare coverage and provides a pharmaceutical benefit for retirees and dependents 65 and over. In 2006 DOD officials and some Members of Congress advocated a number of initiatives to limit cost growth, but only a few were ultimately adopted. Instead, Congress mandated studies by GAO and outside experts on approaches to the growing costs of military medical care. Some observers believe that the issue will be re-visited during consideration of FY2008 authorization and appropriations bills.

CRS Report RL33571, *The FY2007 National Defense Authorization Act: Selected Military Personnel Policy Issues* by Charles A. Henning, Richard A. Best, Jr., David F. Burrelli, and Lawrence Kapp.

CRS Report RS22402, *Increases in Tricare Costs: Background and Options for Congress* by Richard A. Best, Jr.

Abortion and Military Medical Care. [David F. Burrelli, Specialist in National Defense (7-8033)] In 1993, President Clinton modified the military policy on providing abortions at military medical facilities. Under then-existing law, “funds available to the Department of Defense may not be used for abortions except where the life of the mother would be endangered if the fetus were carried to term.” (Title 10 United States Code, sec. 1093(a)) Under the memorandum issued by President Clinton, military medical facilities were allowed to perform abortions if paid for entirely with non-Department of Defense (DOD) funds (i.e., privately funded). Although arguably consistent with statutory language barring the use of Defense Department funds, the President’s policy overturned a former interpretation of existing law barring the availability of these services. On December 1, 1995, H.R. 2126, the FY1996 National Defense Appropriations Act, became law (P.L. 104-61). Included in this law was language barring the use of funds to administer any policy that permits the performance of abortions at any DOD facility except where the life of the mother would be endangered if the fetus were carried to term or where the pregnancy resulted from an act of rape or incest. Language was also included in the FY1996 National Defense Authorization Act (P.L. 104-106, February 10, 1996) prohibiting the use of DOD facilities in the performance of abortions. These served to reverse the President’s 1993 policy change. This language was very contentious

and, in large part, explained the delay in enacting the FY1996 National Defense Authorization Act.

Since then, language has been offered in nearly every session of Congress to repeal, or at least partially repeal, the language prohibiting the use of DOD facilities to perform abortions. These votes have rejected such changes and have largely been along party lines.

With the change in Congressional control in the 110th Congress, it is possible that legislative language expanding the availability of abortion services (e.g., allowing for privately funded abortion services) at military facilities would be proposed as part of the consideration for a FY2008 National Defense Authorization Act.

CRS Report 95-387, *Abortion Services and Military Medical Facilities*, by David F. Burrelli.

Defense Acquisition Reform and Contract Management [Stephen Chadwick, Analyst in Defense Acquisition (7-8983) and Valerie Grasso, Analyst for National Defense (7-7617)]

Problems with Department of Defense (DOD) acquisition policies, especially defense contract management in Iraq, and acquisition reform issues, are likely to present the 110th Congress with significant oversight challenges. Reports of program cost overruns, waste, and contract mismanagement during the 109th Congress point to a continued, if not increased, need for investigations, hearings, and other oversight activities by the 110th Congress. A high level of scrutiny is on DOD procurement practices in Iraq. Also, how traditional defense acquisition programs are managed with regard to controlling costs and meeting schedules of performance, while still meeting the needs of the warfighter, attracted a high level of attention during the 109th Congress. This will likely continue in the 110th Congress.

A number of Congressionally-directed audits, investigations, and hearings conducted during the 109th Congress concluded that cost overruns for overhead and administrative costs, combined with alleged and documented cases of waste, fraud, and abuse, increased the overall contract cost, schedule and performance of DOD activities in Iraq. Some Members of Congress raised questions about the size, scope, and costs of Iraqi contract awards, as well as the policies that govern the contracting process. Congress has also questioned the laws governing contractor integrity, in the face of allegations of questionable contractor behavior.

A large part of the problem is the lack of an adequate DOD accounting reporting system to manage the many contracts that have been awarded, especially under emergency and complex circumstances. For example, the Army's problem in collecting and analyzing data on the number of contractors working in Iraq, is partly due to its own system and also a lack of collaboration among the various military services' contracting offices. Of special interest to the 110th Congress might be looking into contracts providing support services to the U.S. military during and after Operation Iraqi Freedom (OIF). This includes the status and the management history

of the Army's Logistics Civil Augmentation Program (LOGCAP) III contract. A number of questions have been raised about the management of the 10-year task-order contract for providing food and shelter for the U.S. military in Iraq and Afghanistan, awarded to Kellogg, Brown and Root. The LOGCAP III contract is due to expire in 2007; the Army is expected to announce a future competition for the LOGCAP IV contract.

The 110th Congress will face addressing a large body of policy discourse on the question of what should be done next to improve the DOD acquisition system? In response to discernible problems with DOD acquisition programs, the 109th Congress conducted many acquisition oversight hearings, mandated significant reports on defense acquisition, including a number of Government Accountability Office (GAO) reports. Common themes in the hearings and reports included changing the roles of the Office of the Secretary of Defense (OSD)/Joint Staff/Combatant Commanders (COCOMs) and Military Departments; increasing the size and skill levels of the defense acquisition workforce; improving procedures and performance requirements in DOD's acquisition of services; and preventing cost and schedule problems in DOD's acquisition of equipment. However, other issues were largely left out, and might be examined more fully such as the impact of frequent senior program leadership turnover, proper management of incentives for better industry performance, and increasing the level of transparency of information integral to DOD acquisition decisions. Further complicating the defense acquisition landscape is the number of reports DOD is preparing in response to statutory initiatives, and the outcomes of a variety of pilot programs DOD is executing to seek additional ways to improve its acquisition policies and programs.

The magnitude, breadth, and volume of recent analysis, findings and recommendations on defense acquisition reform appear to have one thing in common: none suggests major systemic reorganization similar to that which created the current defense acquisition system, the landmark Goldwater-Nichols Defense Reorganization Act of 1986. While defense acquisition reform was not necessarily the principal catalyst for the Goldwater-Nichols legislation, significant attention was devoted to defense acquisition nonetheless. With such a variety of opinions and perspectives regarding what is wrong and what needs to be fixed, the 110th Congress may be confronted with a crucial policy-making decision point: to continue with the current approach to defense acquisition reform, addressing discrete issues, programs and/or policies under the defense acquisition structure founded by the Goldwater Nichols legislation; or to pursue a comprehensive restructure of the defense acquisition system similar in scope to the Goldwater-Nichols legislation. While this issue may seem academic or tangential to what some may argue are true "issues," the overall method of pursuit of defense acquisition reform, as well as its desired outcome(s), may be a precursor and catalyst to the creation and implementation of more discrete structural and issue-driven reforms.

International Trade and Finance

Overview

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

Trade issues have become increasingly controversial in Congress during the last few years. This is likely to continue to be the case during the 110th Congress as many Members grapple with the real and perceived effects of globalization and how to balance the benefits and costs of trade liberalization. Many Members of Congress have raised concerns over lost jobs and lower wages, over the growing income gap in the United States, and over the burgeoning U.S. trade deficits with trading partners, especially China. That debate could be launched early in the 110th Congress with the scheduled expiration on July 1, 2007, of the Trade Promotion Authority (TPA). TPA is the authority that Congress delegates to the President to enter into certain reciprocal trade agreements and to have their implementing legislation receive expedited congressional consideration. Congress's decision could have major implications for pending FTA negotiations, such as those with Malaysia, South Korea, and Panama, and for U.S. participation in the Doha Development Agenda (DDA) negotiations in the World Trade Organization (WTO). There are a number of other countries with which the United States has been engaged in Free Trade Agreement negotiations and Congress may consider legislation implementing those agreements.

In addition to Trade Promotion Authority (TPA) renewal and implementing legislation for free trade agreements described earlier, other trade issues could be the subject, directly or indirectly, of legislation during the 110th Congress. During the 109th Congress, legislation was introduced targeting China's exchange rate and trade practices, reflecting, in part, widespread congressional concerns over the widening U.S. trade deficit, particularly with China, and its potential impact on the U.S. economy. As U.S. trade with China continues apace, these concerns may be an impetus for trade legislation in the 110th Congress.

Promotion of U.S. exports and foreign investment may be the subject of legislation in the 110th Congress. For example, the Congress may take up re-authorization for the Overseas Private Investment Corporation (OPIC). During the 109th Congress, the Senate and the House did not reconcile differences on legislation to change how proposed foreign investments are reviewed in the inter-agency Committee for Foreign Investment in the United States (CFIUS). The legislation was passed in the wake of concerns over the assumption of control by the Dubai Ports company of operations at some U.S. ports. The 110th Congress could return to this issue. Furthermore, the Congress could take up legislation to re-authorize the Export Administration Act that controls exports of dual-use technology and products and may consider legislation funding for the International Monetary Fund (IMF), the World Bank, and other multilateral development banks (MDBs).

In addition, the 109th Congress extended for six months trade preferences under the Andean Trade Preferences Act (ATPA), and for an additional six months if a country enters into a free trade agreement with the United States. ATPA extends special duty treatment to certain U.S. imports from Bolivia, Colombia, Ecuador, and

Peru that meet domestic content and other requirements. The intention is to promote economic growth in the Andean region and to encourage a shift away from dependence on illegal drugs by supporting legitimate economic activities. The 110th Congress will face the issue of whether to consider a longer-term extension of ATPA as the June 30, 2007 expiration date of the preferences approaches.

Renewal of Trade Promotion Authority

[J. F. Hornbeck, Specialist in International Trade and Finance (7-7782)]

On July 1, 2007, Trade Promotion Authority (TPA — formerly fast track) is scheduled to expire, and with it a special authority that Congress grants the President to enter into certain trade agreements, specifically, those that reduce non-tariff barriers (NTBs) as well as tariffs, and to have legislation to implement them considered under expedited legislative procedures — mandatory introduction, deadlines for committee consideration, limited floor debate, and no amendments — provided the President observes certain statutory obligations in negotiating them. TPA reflects a pragmatic response to accommodate the two branches' responsibility for making trade policy. The procedures allow Congress to exercise its constitutional authority over trade and gives the President added negotiating leverage by assuring U.S. trade partners that final agreements are given swift and unamended consideration. The United States is currently engaged in multiple trade negotiations that may not be completed before the current TPA expires, raising the question of its prospects for renewal.

The core provisions of the TPA/fast track legislative procedures have remained virtually unchanged since they were first enacted in 1974, although Congress has expanded trade negotiation objectives, oversight, and presidential notification requirements. While early versions of fast track/TPA received broad bipartisan support, renewal efforts became increasingly controversial over time as fears mounted over the perceived negative effects of trade, and as the trade debate became more partisan in nature. Congress last renewed TPA in the Trade Act of 2002 following a pitched debate and largely partisan-line vote. Two key issues dominated: the treatment of labor and environment provisions, and assurance of a bipartisan congressional role in trade policy making.

As the debate over TPA renewal takes off, these two issues are still on center stage, flanked by a handful of other trade policy concerns. Congressional decision will be important given the number of trade negotiations, including the World Trade Organization's (WTO) Doha Round and bilateral agreements with South Korea, Malaysia, and Panama, among others, that are close to being concluded before TPA expires. Congress can choose among various options: no action; temporary extension; revision and renewal; permanent authority; or some hybrid solution. How this issue plays out depends on a host of variables including the status of uncompleted negotiations, the economic effects of pursuing trade liberalization as perceived by various stakeholders and the political will to compromise between the Bush Administration and Congress.

CRS Report RL33743, *Trade Promotion Authority (TPA): Issues, Options, and Prospects for Renewal*, by J. F. Hornbeck and William H. Cooper.

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.

Doha

[Ian F. Fergusson, Specialist in International Trade and Finance (7-4997)]

The WTO's Doha Development Round of multilateral trade negotiations was suspended in July 2006 after key negotiating groups failed to break a deadlock on agricultural tariffs and subsidies. The negotiations, which were launched at the WTO Doha Ministerial in 2001, have been characterized by persistent differences between the United States, the European Union (EU), and developing countries on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies. The impasse has almost certainly put negotiators beyond the reach of agreement before U.S. trade promotion authority (TPA) expires on July 1, 2007. (Under TPA, the President must give a 90 day notification to Congress of his intent to sign an FTA, thus making the *de facto* deadline April 1, 2007 for reaching an agreement.)

The agricultural negotiations have become the most visible cause of deadlock within the Doha Round negotiations. The aims of the talks have been to make substantial improvements in market access; to reduce, or to eliminate, all forms of export subsidies; and to achieve significant reductions in trade-distorting domestic support. These three aims have come to be termed the three pillars of the agriculture negotiations. Yet major differences in the agricultural proposals of the United States, the EU, and the G-20 group of developing countries have hampered progress in the negotiations. The United States, for example, has conditioned its offer to substantially reduce domestic subsidies on gaining substantial market access from the EU and, especially, from the developing countries. The EU, however, has indicated it will not move further on market access liberalization unless developing countries agree to open markets for services and industrial products, and the United States makes concessions on the treatment of geographical indications for food and agricultural products. The G-20, for its part, has indicated it will not make substantially improved offers on non-agricultural market access (NAMA) and services, until there is progress on domestic farm subsidies and market access. Perhaps the most concrete result of the talks to date has been the decision to amend the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement to enable developing countries to obtain generic drugs through compulsory licenses to fight public health epidemics such as HIV/AIDS, tuberculosis, malaria, and other infectious diseases.

Because of the negotiating stalemate, it is considered unlikely that an agreement can be reached before the expiration of TPA. More likely, the parties will attempt to restart the negotiations in order achieve some measure of progress in the hope that Congress will extend TPA. The state of the negotiations may also impact the 2007

farm bill. Many had looked to a Doha Round agreement to curb trade-distorting domestic support as a catalyst to change U.S. farm subsidies, but this source of pressure for change has dissipated with the Doha impasse. In addition, Congress may consider legislation to amend U.S. patent law to implement the TRIPS access to medicine decision.

CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*, by Charles E. Hanrahan and Randy Schnepf.

CRS Report RL33634, *The World Trade Organization: The Non-Agricultural Market Access (NAMA) Negotiations*, by Ian F. Fergusson.

CRS Report RL33750, *The WTO, Intellectual Property Rights, and the Access to Medicines Controversy*, by Ian F. Fergusson.

Free Trade Agreements/Implementing Legislation

[Ian F. Fergusson, Specialist in International Trade and Finance (7-4997)]

Congress may be asked to approve one or more proposed free trade agreements (FTAs) in the first months of the 110th Congress. Proposed FTAs with Peru and Colombia have been signed and may be considered under trade promotion authority (TPA). Other negotiations are in progress with Panama, Malaysia, and South Korea. Negotiations with Thailand and the United Arab Emirates are currently suspended. One or more of these negotiations may be completed in time to be considered under TPA, which expires on July 1, 2007. (Under TPA, the President must give a 90 day notification to Congress of his intent to sign an FTA, thus making the *de facto* deadline April 1, 2007 for reaching an agreement.) These proposed 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.

In the 110th Congress, legislators may first consider the proposed FTAs reached with Peru and Colombia. The rationale for these agreements, in part, is to bolster the legitimate economies of these countries in order to combat the narcotics trade. Some Members of Congress, however, have advocated the modification of these agreements to provide additional labor standards. Other agreements that may be completed in time for consideration under TPA are those with Korea, Malaysia, and Panama. Korea is the 7th largest trading partner of the United States; U.S. negotiators are seeking to open the country's well protected agricultural sector and to address non-tariff barriers in the automobile and other manufacturing sectors. Malaysia is the 10th largest trading partner of the United States; U.S. concerns include import restrictions on automobiles, restrictions on government procurement and financial services, and intellectual property rights. In its negotiations with Panama, the United States is seeking greater liberalization in the financial and commercial services sector and in government procurement in the Panama Canal zone.

In the 109th Congress, members approved implementing legislation for the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and FTAs with Bahrain and Oman. Of these agreements, FTAs have been proclaimed in force with Bahrain, and with the CAFTA-DR countries of El Salvador, Honduras, Nicaragua, and Guatemala. CAFTA-DR proved to be the most contentious of the agreements, passing the House by a vote of 217-215 on July 28, 2005, and by 55-45 in the Senate later the same day.

In debating future implementing legislation, Congress may, explicitly or implicitly, question several aspects of the Administration's trade policy. Do these proposed agreements fulfill the obligations of trade promotion authority? Do the labor protection provisions in these agreements 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 with the Asia-Pacific Economic Community (APEC)? 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 face the decision of whether the threat of lost jobs, and lost market-share to import-competing industries, outweigh the prospect of new employment or new markets for exporters.

CRS Report RL33463, *Trade Negotiations During the 109th Congress*, by Ian F. Fergusson.

CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, by M. Angeles Villarreal.

CRS Report RS22419, *U.S.-Colombia Trade Promotion Agreement*, M. Angeles Villarreal.

CRS Report RL33435, *The Proposed South Korea-U.S. Free Trade Agreement (KORUS FTA)*, by William H. Cooper and Mark E. Manyin.

Trade Deficit Concerns

[James K. Jackson, Specialist in International Trade and Finance (7-7751)]

By year-end 2006, the U.S. current account, a broad accounting of the net difference between the goods and services the country exports and imports annually, is to surpass the record \$717 billion deficit recorded in 2005. The cumulative amount of successive deficits is raising concerns about the long-term impact on the economy as a result of financing the current account deficit through inflows of foreign capital. Given current macroeconomic conditions, however, these capital inflows are bridging the gap between domestic supplies of and demand for capital, including the federal government's budget deficit.

Foreign investors are now major investors in U.S. corporate stocks and bonds and hold more than 50% of the 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. Such a reduction would place added strains on the U.S. economy and likely increase pressures on the 110th Congress to address difficult budget and spending issues.

International capital flows now far surpass flows of goods and services in the global economy and are the driving force behind 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 more than 10 percent against the euro and other currencies that float freely.

A sustained change in capital inflows would affect the value of the dollar, which, in turn, would have a direct impact on the U.S. current account balance by altering the level and composition of U.S. exports and imports of goods and services. Although foreign trade is still a relatively small part of the overall U.S. economy, changes in the trade accounts alters the composition of jobs in the economy and can affect the overall level of economic activity. As a result, actions or events that cause a sustained change in capital inflows would also affect the value of the dollar. The changing value of the dollar would then have a direct impact on the U.S. current account balance by altering the level of U.S. exports and imports of goods and services. In turn, such a change could affect a broad range of sectors in the U.S. economy. Such events could increase pressure on Congress to pursue policies which promote U.S. exports and to confront more aggressively those countries 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.

CRS Report RL33274, *Financing the U.S. Trade Deficit*, by James K. Jackson.

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

Foreign Investment, Outsourcing, and Finance

[James K. Jackson, Specialist in International Trade and Finance (7-7751)]

The United States stands distinct in the world as the leading source of direct foreign investment and as the leading destination for such investment. Generally, the public and Congress view such investment favorably, although some groups are concerned about foreign investment in “critical” industries and sectors they believe could impair the economic security of the country and about job losses associated with U.S. investment abroad. These concerns sparked a national debate about the merits of such investment and the course of U.S. economic policies and led some Members to introduce more than two dozen measures to address such concerns during the 109th Congress. Many of these issues remain unresolved and may resurface in the 110th Congress. On the whole, most U.S. communities welcome foreign direct investment for the taxes and potential employment that it can bring, but these gains are being weighed against national security concerns and the potential for

job losses as U.S. companies seek out foreign locations and foreign workers to perform work that traditionally has been done in the United States.

Other observers are concerned by the large inflows of capital that foreign investors are bringing into the U.S. economy. Foreign investors now hold more than 50% of the publicly traded U.S. Treasury securities. This large and growing foreign accumulation of U.S. securities has spurred some observers to argue that the large foreign presence in U.S. financial markets increases the risk of a financial crisis, adds uncertainty to the value of the dollar, and is affecting the U.S. trade balance. At the same time, the capital inflows are accommodating the current mix of U.S. economic policies and are keeping U.S. interest rates below the level they otherwise might reach without the capital inflows. While the risk of a financial crisis associated directly with the capital inflows seems slight, Congress likely would find itself embroiled in any such financial crisis 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.

Some observers are also concerned by the seemingly unlimited access foreign investors have to invest in or to acquire U.S. firms, especially firms that are involved in economic activities that some view as critical to U.S. economic security. Placing restrictions on foreign investment, however, is potentially at odds with provisions of U.S. law and with U.S. efforts within the WTO and the Organization for Economic Cooperation and Development (OECD) to promote international standards that relax national rules concerning foreign investment, including granting foreign firms national treatment. In an earlier response to similar concerns, Congress passed the Exon-Florio provision, which gives the President the authority to block foreign investments that are deemed to threaten U.S. national security. Efforts begun in the 109th Congress to amend this process may continue in the 110th Congress with some Members moving to strengthen Congressional oversight over the Exon-Florio process.

CRS Report RL33614, *Exon-Florio Foreign Investment Provision: Comparison of H.R. 5337 and S. 3549*, by James K. Jackson.

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

Export Promotion

[M. Angeles Villarreal, Analyst in International Trade (7-0321)]

Several U.S. government agencies promote exports of U.S. goods and investment abroad. Congressional focus in the 110th Congress may concern funding levels at a time of budgetary pressure, adherence of U.S. export promotion practices with WTO rules, and the extent to which these programs are providing value to the U.S. economy. Export promotion programs of the Department of Agriculture and the Overseas Private Investment Corporation (OPIC) are authorized through FY2007 and the Ex-Im Bank through FY2006. In the 109th Congress, legislation was passed to reauthorize the Bank's charter, which expired on September 30, 2006, for five years through September 30, 2011. In the 110th Congress, there may be efforts to

reauthorize export promotion programs of the Department of Agriculture and OPIC. Funding for these programs recently has not been controversial, especially because many of these programs relating to credit guarantees and insurance are self-sustaining through fee collection and interest payments. However, export promotion funding for non-revenue generating activities may receive renewed scrutiny at a time of tight budgets.

Export promotion can be categorized into seven distinctive functions: (1) combating foreign export subsidies; (2) developing foreign markets; (3) financing and insuring U.S. trade; (4) providing information, counseling, and export assistance services; (5) negotiating reductions in foreign trade barriers; (6) funding feasibility studies; and (7) government-to-government advocacy efforts. There are 19 federal agencies that promote exports, most notably the Foreign Agricultural Service of the Department of Agriculture, the International Trade Administration of the Department of Commerce, Export-Import Bank (Ex-Im), Overseas Private Investment Corporation (OPIC), the Trade and Development Agency, Economic and Business Bureau of the Department of State, the Small Business Administration, and the U.S. Trade Representative. The U.S. Trade Policy Coordinating Committee (TPCC), established by the Export Enhancement Act of 1992 (P.L. 102-429), coordinates and sets priorities for these and other federal agencies involved in promoting exports. The latest available TPCC estimates show that the U.S. government agencies spent \$1.4 million on export promotion activities, approximately one-half going to agricultural promotion activities.

CRS Report 98-568, *Export-Import Bank: Background and Legislative Issues*, by James K. Jackson.

CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by James K. Jackson.

CRS Report RL33553, *Agricultural Export and Food Aid Programs*, by Charles E. Hanrahan.

Export Administration Act

[Ian F. Fergusson, Specialist in International Trade and Finance (7-4997)]

In the 110th Congress, there may be a new effort 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 of time, 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 109th Congress, H.R. 4572 (Hyde) was introduced on December 16, 2005, but no action was taken on the bill. This legislation would have increased penalties for export control violations, amended certain enforcement provisions in the act, established objectives for U.S. participation in multilateral control regimes, and reauthorized the 1979 Act for two years.

The last instance in which EAA renewal legislation received extensive consideration was in the 107th Congress. S. 149 (Enzi) was passed by the Senate on September 6, 2001; a companion bill, H.R. 2581 (Hyde), 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 Bush Administration publicly supported the Enzi bill.

The debate of dual-use export controls ultimately becomes one of choosing the right balance between national security concerns and commercial considerations. Some claim the current system compromises national security goals by failing to prevent the spread of dual-use goods and technologies to countries suspected of proliferation of weapons of mass destruction or to countries in support of international terrorism. According to this 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 critics claim that current export controls disadvantage U.S. business by subjecting exports of goods and technology to cumbersome and ineffective licensing procedures that cedes 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 claim 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 RS20517, *Military Technology and Conventional Weapons Export Controls: The Wassenaar Arrangement*, by Richard F. Grimmett

International Financial Institutions

[Martin A. Weiss, Analyst in International Trade and Finance (7-5407)]

Congress has annual legislative and oversight responsibilities regarding U.S. involvement in the international financial institutions (IFIs). The IFIs are comprised of the International Monetary Fund (IMF) and the multilateral development banks (MDBs): the World Bank, the African Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and several smaller sub-regional institutions.

Three key MDB funding initiatives were authorized during the 109th Congress for MDB concessional lending facilities. Since these facilities lend to the poorest

member countries at below-market interest rates, their resources are periodically replenished by donor nations. The FY2006 Foreign Operations appropriations bill (PL109-102) authorized the U.S. contribution over three years of \$2.85 billion to the fourteenth replenishment of the World Bank's International Development Association; \$461 million to the eighth replenishment of the Asian Development Fund, and \$407 million to the tenth replenishment of the African Development Fund. The 110th Congress may consider appropriations to complete these replenishments by FY2008.

In addition to IFI funding, the 109th Congress addressed several policy issues through legislation and oversight hearings regarding the institutions. It appears that many of these issues may be of continued interest to the 110th Congress. Five potential IFI issues that Congress may address during the 110th Congress are the future of multilateral debt relief; the anti-corruption policies of IFIs; the environmental impact of IFI programs; efforts to reform the governance structure of the IMF to provide greater representation to poor and developing country members; and the role of the IMF in monitoring international exchange rates.

CRS Report RS22534, *The Multilateral Debt Relief Initiative*, by Martin A. Weiss.

CRS Report RL33626, *International Monetary Fund: Reforming Country Representation*, by Martin A. Weiss.