Chapter 14
Economic Analysis at the U.S. International Trade Commission

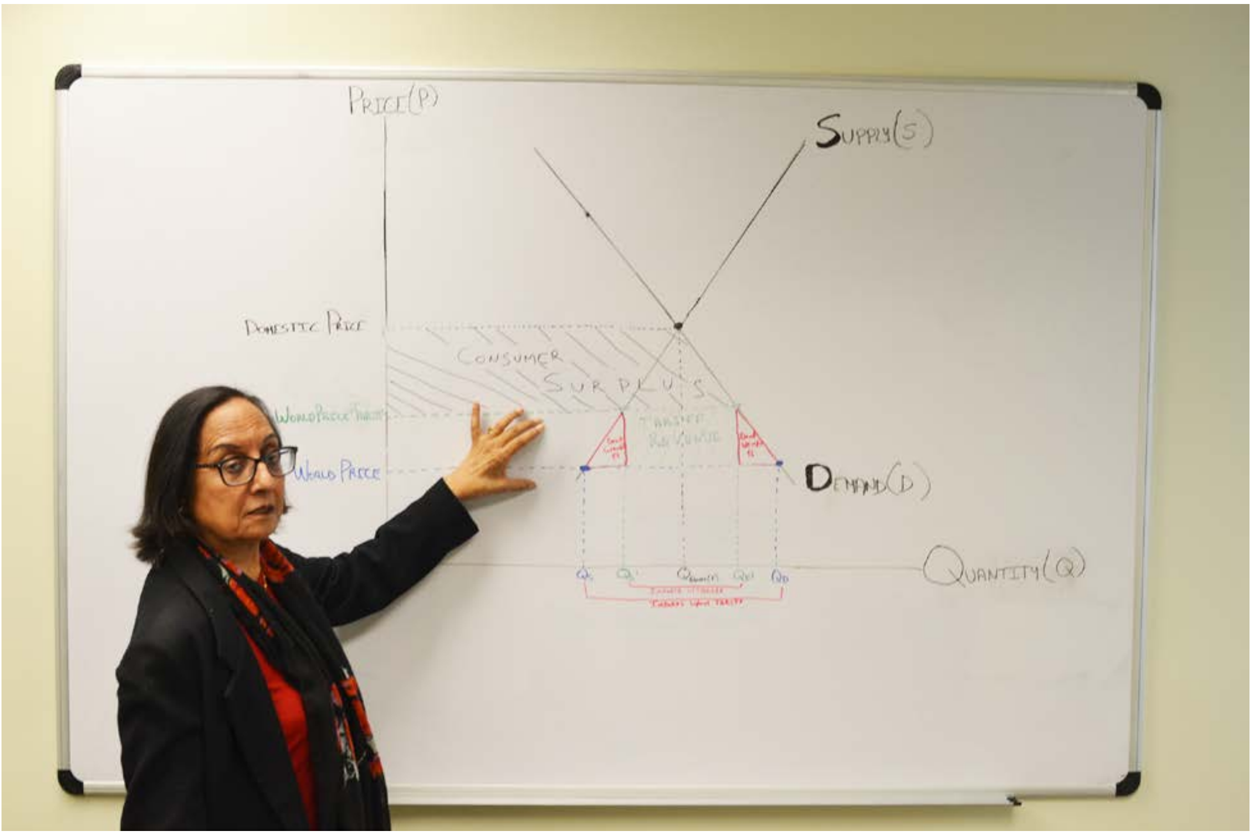


Photo: Arona Butcher, the Chief of the Commission's Country and Regional Analysis Division, discusses the effects of trade on a domestic U.S. supply and demand curves.

Michael O. Moore[1141] [1142]

The U.S. International Trade Commission (Commission) has earned a sterling reputation as an impartial source of international trade analysis. A prime example is the production and dissemination of formal economic analysis initiated through Congressional and Presidential requests or even at the Commission's own discretion. The investigations are prized widely for their professionalism, thoroughness, and timeliness and are used extensively in the development and implementation of current U.S. trade policy.

This chapter will examine the history and use of these reports during the Commission's existence, with particular attention to those conducted under the authority of section 332 of the Trade Act of 1930 ("332" reports), which allows the President, Congress, or the Commission itself to request or initiate fact-finding studies on a broad array of international trade topics. This discussion therefore will not touch on other important aspects of the Commission's agenda, including economic analysis necessary for the administration of unfair competition, safeguard, or antidumping and countervailing duty investigations.[1143]

This review makes clear that the patterns and emphases of the Commission's economic analyses reflect the changing nature of U.S. trade policy over the last 100 years. The rapidly evolving U.S. economy and its relationship with the global economy over the past century have coincided with fundamental changes in American trade policy; not surprisingly, the Commission's economic analysis has been transformed as well. In addition, the evolving technical approaches employed by the Commission's staff also reflect the increased complexity of the economic profession in terms of theory, computer modeling, and econometric sophistication.

[1141] Michael Moore is Professor of Economics and International Affairs at the Elliott School of International Affairs at the George Washington University. Among his publications is "An Econometric Analysis of US Antidumping Sunset Review Decisions," *Review of World Economics/Weltwirtschaftliches Archiv*, vol. 142, no. 1, 2006.

[1142] Acknowledgments: I would like to thank Maureen Bryant at the U.S. International Trade Commission Law Library for help in gathering the data for this project. I also greatly benefited from discussion with Robert Rogowksy and Bill Powers about past and current International Trade Commission approaches in economic studies. Any mistakes are of course my own.

[1143] More comprehensive reviews of the Commission's broader role can be found in Robert E. Baldwin, *The Political Economy of U.S. Import Policy,* (Cambridge, MA: MIT Press, 1986); George Bronz, "The Tariff Commission as a Regulatory Agency," *Columbia Law Review* 61, no. 3 (1961): 463–89; and John M. Dobson, *Two Centuries of Tariffs: The Background and Emergence of the U.S. International Trade Commission* (Washington, DC: GPO, 1976).

We will expand upon these themes below but some details are worth noting up front. First, the Commission focused in its early years on narrowly "defensive" interests, i.e., import competing sectors, especially in agricultural and commodity markets. In more recent years, section 332 studies reflect greater executive and legislative branch interest in broader multilateral and, later, bilateral agreements. These more recent approaches have brought U.S. "offensive" interests (e.g., services, intellectual property, and foreign investment) into the forefront. The Commission's work also has reflected the public's (and hence policy-makers') concerns regarding particular nations (e.g., China or Japan) or specific agreements (the North American Free Trade Agreement, "NAFTA").

The chapter will also show how the source (i.e., legislative or executive branch) of the greatest number of requests for section 332 reports has changed, and how this mirrors U.S. trade policy development. We will see that while Congress generated the most requests in early decades of the Commission's existence, the executive branch has taken on a much more important role in recent years. Some of these requests from the Executive Office of the President are mandated by legislation, especially in the last twenty years. But many other presidential 332 requests reflect the priorities of a particular administration. In addition, the increased production of confidential section 332 studies reflects the widespread view among requestors that the Commission produces useful and unbiased trade policy reports on potentially controversial topics.

A Brief History of USITC Investigations

A broad review of U.S. trade policy history is beyond the scope of this chapter but it is useful to recall its broad outlines.

Prior to 1934, trade policy was determined primarily through direct Congressional decisions about individual product tariff rates as allowed by Article I of the U.S. Constitution, which grants Congress the power to regulate foreign commerce. Congress was sometimes dominated by protectionist interests and sometimes by more liberal traders but tariff rates were frequently the outcome of intense political clashes. In the 1930s Congress passed the Reciprocal Trade Agreements Act of 1934 (RTAA) that allowed President Roosevelt to lower tariffs on his own initiative if trading partners lowered their own barriers. Presidential leadership was also expanded during the immediate post-World War II period as the multilateral trading system took root, with a clear emphasis on trade liberalization on a most-favored nation basis rather than protect U.S. import competing industries.

Presidential prerogatives were institutionalized further in the 1974 Trade Act that established the Office of the U.S. Trade Representative (USTR) within the Executive Office of the President. This trade act also reorganized the old U.S. Tariff Commission into the U.S. International Trade

Commission. In many ways, this name change reflected the evolving nature of the Commission's mandate; no longer would it be focused more narrowly on tariffs affecting individual industries but instead it would analyze the multifaceted new world of global trade and investment.

Broad multilateral agreements culminated with the establishment of the World Trade Organization (WTO) in 1995, which expanded the trade agenda considerably. Not only were the clear majority of trading nations now covered by international agreements overseen by the WTO but those pacts included new commitments on services, copyrights and trademarks, and investment, among other issues.

U.S. Presidents more recently have begun to finalize multifaceted bilateral, regional, and plurilateral trade liberalization agreements such as the U.S.-Singapore Free Trade Agreement, NAFTA and the Trans-Pacific Trade Partnership. Increased globalization of the U.S. economy has resulted in the Commission's investigations delving into more and more complex topics, including global supply chains, intellectual property protections and measuring non-tariff barriers. Nonetheless, Congress delineates broad trade policy goals in the statutes that delegate negotiating power to the executive branch.

The Commission's task as a provider of analysis necessarily has become more complex as trade and trade agreements have become more complicated. Its in-house economic reports have taken on a much more technical nature in the last 25 years. This increasingly technical approach is captured dramatically by comparing two Commission reports: one from the earliest days of the Tariff Commission and another completed in 2014.

In 1918, the early publication *Reports of the U.S. Tariff Commission* (U.S. Tariff Commission, 1918) includes a number of investigations that focused on the competitive pressures of individual U.S. industries vis-à-vis foreign rivals (paper and books, textile dyestuffs, buttons, glass, and silk). The general approach includes reporting simple statistics and comparing certain domestic and foreign production costs. The focus is reactive (i.e., how are U.S. import competing industries threatened by foreigners?), backward-looking (compilation of past data), and descriptive.

Ninety-six years later, Commission staff completed a report on Indian trade and investment policies that reflects a wholly different set of U.S. economic priorities as well as enhanced methodological expertise.[1144] The 2014 report analyzed how U.S. commercial interests are affected by a developing country's policies that did not even have an independent trade policy when the Commission was founded. These interests are much more expansive than those

[1144] USITC, *Trade, Investment, and Industrial Policies in India: Effects on the U.S. Economy*, USITC Publication 4501 (Washington, DC: USITC, 2014).

evident in the 1918 reports. For example, the Commission examined the impact of India's domestic policies and intellectual property rights regime on U.S. exports and outward foreign direct investment in both goods and services sectors. The Commission continued its long-standing practice of including detailed statistics that paint an accurate picture of the current situation, but also included a technically complex simulation of the possible economy-wide effects on the United States of a removal of Indian trade and investment barriers (i.e., a "computable general equilibrium" model or CGE model, about which more below). The report also contains sophisticated econometrics (i.e., statistical analyses of economic data) as well as data from a Commission survey of U.S. firms that is especially useful for issues where public data are not available. In contrast to reports from the early Tariff Commission days, this investigation was "offensive" (i.e., it focused on U.S. firms' interest in exporting to, and investing in, India), forward-looking (i.e., it includes "forecasts" of possible U.S. benefits), and employed a theory-based analysis. The Commission's analysis has indeed come a long way.

Many of the Commission's early economic reports were initiated under section 315 of the Fordney-McCumber Act of 1922. This provision allowed the President to alter U.S. duties to reflect differences in production costs between domestic suppliers and the "principal foreign supplier" of the article in question if the Commission found evidence of such differences. This approach was explicitly protectionist and Republican Presidents of the 1920s unabashedly used their power to limit foreign competition but only if the Commission provided concrete evidence in the section 315 reports. For example, President Calvin Coolidge used this authority in 1927 to increase tariffs on barium carbonate (with Germany as principal competing country), sodium silicofluoride (England), and onions (Spain). Section 315 investigations placed the Commission in a central role as an "impartial" collector of data, but economic analysis with any theoretical structure was absent from these early reports.

The statutory basis for the Commission's economic investigation changed importantly in the Tariff Act of 1930. This Act—also known as the Smoot-Hawley Act—is of course best known for enacting dramatic increases in tariffs, but it also allowed the President or Congress to request that the Commission conduct much broader investigations about trade relations than contemplated under earlier statutes. These so-called "Section 332" investigations have been the primary vehicle for the Commission to provide sound and impartial economic analysis to policy-makers and the public since 1930, and are the focus of the discussion below.

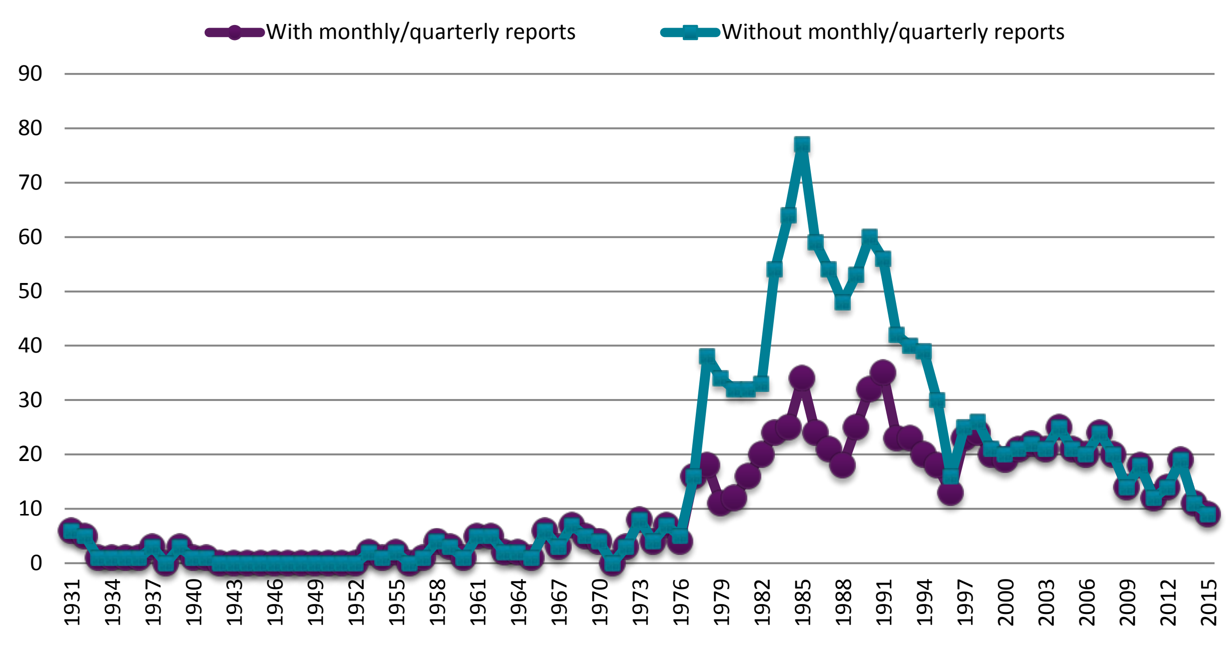
Overall Patterns of Section 332 Use

As of April 2016, the Commission had completed 550 fact-finding section 332 reports. Descriptive statistics provided below will show that the subject matter in these investigations mirrors those of the changing interests and priorities of U.S. trade policy over the decades.

As noted above, this chapter will not include a discussion of other types of Commission investigations (e.g., injury or unfair trade practice determinations). However, the chapter will include treatment of other fact-finding reports similar in structure to section 332 investigations though not technically authorized by that statute. In particular, we include in the statistics both "Section 2104" and "Section 103" reports, both of which were mandated by Congress. The former includes studies of the economy-wide effects of bilateral, regional, and plurilateral free trade agreements under section 2104 of the Trade Act of 2002. The latter are required under section 103 of the North American Free Trade Agreement Implementation Act and involve analysis of changes in rules of origin provisions required for administration of NAFTA and other free trade agreements.

Figure 14.1 shows that the frequency of these fact-finding reports started relatively slowly, reached a peak in the mid-1980s, and then tapered off. In fact, there were only 23 investigations completed in the first 20 years of the process (1931–1951), during which Commission resources were focused on other types of activities and investigations.

Figure 14.1: Completed fact-finding investigations



Source: U.S. International Trade Commission and author calculations.

Many of the early section 332 reports were focused on an individual industry's competitive positions with regard to foreign sources (e.g., crude petroleum, sugar, phosphate, and fishing gear), and so were similar in emphasis to the Commission's pre-1930 investigative activities. One study on the effects of devalued currencies in the 1930s did reflect a broader economic context but even in this instance the ultimate interest was on the devaluations' effects on individual industries rather than on the economy as a whole. It is also notable that there were no general economic studies about the impact of the Great Depression on trade, the effect of the Smoot-Hawley Tariff Act on U.S. economic activity, or the effect of expanded presidential trade policy authority in the 1930s. Even the flurry of tariff reductions in the immediate post-World War II period resulted in few section 332 studies.

Of course, the absence of formal section 332 investigations does not mean that the Commission's analytical abilities were not involved in trade policy. Dobson (1976) documents the Commission's critical role in preparing detailed data on possible tariff concessions during the early GATT rounds. The Commission also played a central role in "escape clause" investigations that helped identify possible "serious injury" to domestic industries as a result of trade concessions. But these efforts did not occur under the general fact-finding powers of the Commission and therefore are beyond the scope of this chapter.

Figure 14.1 shows that there was an important uptick in section 332 reports in the mid-1970s that reached a peak during the 1980s. This change reflects the growing importance of trade in the U.S. economy. The increase also coincided with the implementation of new commitments under the Tokyo Round of GATT negotiations after its conclusion in 1979. Perhaps most notably, much of the bulge in section 332 investigations during this period is a result of studies on a handful of industries such as automobiles, steel, and shoes that came under intense pressure from imports, especially from Japan. This pressure manifested itself in a host of new investigations by the Commission, ranging from antidumping material injury decisions to safeguard serious injury investigations. But the House Ways and Means and Senate Finance Committees also asked the Commission to publish high frequency (semi-annually, quarterly, or even monthly) statistical section 332 reports on the status of particular import-sensitive domestic industries.

Many of the studies published in the late 1970s and 1980s were not new fact-finding investigations but instead a constant stream of statistical reports. Nonetheless, the Commission's investigative burden continued to rise in this period. The second series in Figure 14.1 presents the number of section 332 investigations but excludes those for which multiple reports were issued in a single year. The still-evident spike in reports reflects the growing concerns about the rising trade deficits of the mid-1980s combined with mass layoffs in the politically sensitive manufacturing sectors noted above.

There was a drop-off in the simple count of section 332 investigations during the post-1980s period though the number was still much higher than in the pre-1980 period. More notable, however, was the profound change in the way that the Commission conducted economic investigations in the late 1980s. In particular, there was a growing economic sophistication as well as a profound shift away from simple focus on import-competing sectors. We will return to this issue in a later section.

Who Requests Section 332 Investigations?

The question arises as to which branch has taken the lead in directing the Commission's analytical resources for trade policy issues. These section 332 investigations aid requestors by helping frame the debate on trade policy issues, providing analysis to guide policy, and examining the consequences of trade policy actions. Congress, the Executive Branch, or even ITC Commissioners can initiate a section 332 report. Congress may also mandate that the President, or his agent, request an investigation through legislative fiat.

Table 14.1 provides some insight about the dominant institutions in U.S. trade policy. These statistics include the requesting agency for each 332 investigation (as well as 103 and 2104 studies) since 1930.[1145] Note that these data do not include monthly, quarterly, and semi-annual statistical investigations.[1146] The data are split into six data periods: 1) prior to and including the Dillon GATT Round (1930–62); 2) the Kennedy GATT Round (1963–67); 3) the Tokyo GATT Round (1968–79); 4) the Uruguay Round (1980–94); 5) post-WTO and pre-Doha period (1995–2001); and 6) Doha period (2002–15).

Table 14.1: Requesting agency for fact-finding investigation

	Senate	House	Legislatively mandated	President	Commission self-initiated	Confidential reports
1930–62	20	19	1	0	6	0
1963–67	2	3	0	3	4	0
1968–79	12	9	4	23	33	10
1980–94	78	55	27	115	67	38
1995–2001	9	20	23	62	24	20
2002–15	20	20	81	119	26	40

Source: U.S. International Trade Commission and author calculations.
Note: This count includes all section 332, 103, and 2104 investigations.

We see clear evidence of Congress continuing to play the preeminent role prior to 1962 in terms of requests for section 332 investigations. Thirty-nine out of 46 studies were initiated

[1145] Note that the information on what agency initiated pre-1994 investigations was obtained from a U.S. International Trade Commission library compilation; post-1994 information was collected from online Federal Register notices.
[1146] The data only specify what agency formally requested an investigation but it is possible that this might hide some of the complexities surrounding the ultimate source of a 332 request. For example, a group of senators might push behind the scenes for the USTR to ask for a study on a politically sensitive matter; an Administration request might have a different political effect than one that originates in Congress. Similarly, Commissioners (or their staff) could contact members of Congress about the types of studies that the Commission might conduct with its available resources.

either by the Senate (20 reports) or the House (19 reports) during this period. Thus, while Congress may have delegated authority to the President to negotiate trade agreements, Senators and House members continued to express their keen interest in trade policy outcomes through these requests made to the Commission. However, the percentage requested by either the House or Senate declines in most subsequent periods and reached a low of 15 percent (or 40 out of 266) for the 2002–15 period.

In contrast, the Executive Office of the President initiated an increasing number of studies in recent decades. There were no Presidential 332 requests prior to 1962 compared to 28 percent from 1968 through 1979 (23 out of 81 cases) and 45 percent from 1995 through 2015 (181 out of 404 cases). These data reflect the increasingly important role of the President in conducting and developing trade policy in recent decades.

At the same time, there has been an important uptick in the number of section 332 investigations conducted as a result of legislative mandates in recent years, especially after the delegation of "trade promotion authority" to President George W. Bush under the Trade Promotion Act of 2002. Congress passed this legislation only after difficult negotiations. In particular, some Congressional leaders (as well as the public) expressed trepidation about the increasing dominance of the President in trade policy. Starting in 1974, the President had received "fast-track" authority that allowed an up or down vote by Congress on the final text implementing the trade agreements for these major initiatives. However, some in Congress believed that this process put the Senate and House at a disadvantage since the only options were to approve the agreement as finally negotiated or reject it completely. The Trade Promotion Act of 2002 therefore included more mandates about Congressional consultations during the negotiation process. In response to Congressional concern about the increasing dominance of the President in trade policy, the Act—among other provisions—also required that the USTR request 332-type investigations on the economy-wide effects of proposed free trade agreements. While USTR or Congress might have chosen to ask for such reports in the past, they became a required part of the process in the 2002 Trade Act. Such mandated investigations are considered separately in Table 14.1, e.g., a formal request by USTR for a fact-finding report that is required by law is not counted in the "President" column.

Table 14.1 shows that such legislatively mandated investigations have nearly quadrupled from 1995–2001 to 2002–2015 from 23 to 81 reports.[1147] If this type of request is included in the House and Senate totals for the post-2002 period, we see an equal percentage of Congressional and executive branch section 332 requests. Members of both houses of Congress may be reasserting their traditional prerogatives on trade policy through legislative mandates.

[1147] Examples include mandated studies required for implementation of the Caribbean Basin Economic Recovery Act and the Andean Trade Preferences Act, among others.

The changing role of the Commission is also evident in the expanded use of confidentiality in section 332-type reports. Reducing tariffs almost necessarily results in economic disruption for some firms and workers. As noted above, as the United States embarked on substantially liberalized trade in the post-war period, policy-makers turned to the Commission to provide impartial analysis about the effects. Beginning in the mid-1970s, policy-makers began to ask for reports on proposed changes that would not be made public; these confidential investigations would help policy-makers weigh the economic and political costs and benefits of altered trade policy for a particular industry with some insulation from outside pressure.

There were no such confidential reports identified by the author until 1976 when the Commission began a series of politically sensitive investigations about the potential impact of unilaterally reducing tariffs for particular industries as part of the Generalized System of Preferences (GSP) Program that was initiated in 1974.[1148] Eighty percent (8 out of 10) of the Commission's confidential reports in the 1970s were focused on the GSP. In subsequent years, the breadth and complexity of confidential reports produced by the Commission expanded dramatically. For example, early negotiations on a possible U.S.-Canada free trade agreement were preceded by a series of confidential section 332 reports.[1149]

The use of confidential Commission-produced section 332 reports has now become an essential part of the process in the development of trade policy options before and during complicated trade policy negotiations. Table 14.1 shows that over 20 such confidential reports were initiated from 1995 to 2001 and 40 from 2002 to 2015 alone. The topics range from analysis of initiatives that have not yet borne fruit (e.g., a free trade agreement with the South African Customs Union, the Free Trade Agreement of the Americas, and the Doha Round) and others that helped inform the USTR about successful free trade agreements with Colombia, Panama, and Korea.

From an institutional standpoint, policy-makers' reliance on the Commission to conduct these confidential studies is a testament to its perceived impartiality and technical competence. In essence, the Commission's economists and industry analysts increasingly have performed a role as an in-house economic think tank that can help guide the government's efforts through domestically difficult political waters and inform positions in complicated international trade negotiations.

[1148] The public is alerted through *Federal Register* notices that such investigations have been initiated though the complete final reports are generally not available to the broader population. A few are published in redacted form though the lion's share of the study remains classified.
[1149] See USITC*, Probable Economic Effect of Providing Duty Free Treatment for Selected Imports from Canada*, USITC Investigation No. 332-196 (Washington, DC: USITC, 1985), and USITC, *Magnitude of U.S.-Canada Trade and Operations in Selected Service Industries*, USITC Investigation No. 332-235 (Washington, DC: USITC, 1987).

Commissioners also have had the statutory authority to self-initiate section 332 investigations. Self-initiation has remained relatively rare throughout the history of 332 reports: only 10 instances from 1930 to 1967. From 1980 through 2015, only 16 percent of all investigations were self-initiated by the Commission. These reports generally have been on less-sensitive subjects and frequently focused on data gathering. For example, the Commission inaugurated an annual survey of the chemicals industry during its first year of existence, in large part as a result of the disruption of international trade with Germany during World War I. The Commission continued with this annual survey for 78 years until the House Ways and Means Committee requested its termination in 1995.

The example of the annual chemicals survey brings up an important feature of the section 332 investigations. The simple number of reports each year only tells a portion of the story about the Commission's investigative activities: the subject matter of the reports and the techniques used to analyze data are also critical to understanding the growing complexity and importance of the Commission's efforts.

Subject Matter of Section 332 Requests

An examination of the content of section 332 reports since 1930 makes clear how the focus of Commission investigations has been transformed from "fact-compilation" exercises to "fact-analysis" activities. Moreover, the Commission's reports reflect the changing focus of U.S. trade policy-makers towards the emerging global economy of the 21st century.

Data compiled by the author for 1930–62 reveal a distinct focus on manufacturing and primary products (agriculture and commodities) with 28 percent and 65 percent of cases, respectively. Inspection of individual reports shows that these almost always concerned domestic industries and competitive pressures that they faced from foreign sources. These studies were focused on the impact on individual industries and not the broader U.S. economy.

Commission fact-finding investigations began to focus much less frequently on agriculture and primary commodities in subsequent years, a pattern that reflects the diminishing importance of these sectors in the U.S. economy. During the Kennedy Round (1963–67), only 2 of the total 12 reports (or 17 percent) concerned agriculture or commodities. This pattern continued in subsequent time periods with 19 percent in 1968–79 and 18 percent in 1980–94. There was a jump in the number of investigations that included analysis of agricultural/commodity sectors during 2002–15 when the percentage reached 48 percent (i.e., 128 out of 266 reports). However, these later reports were much less likely to focus on individual products but instead were part of more complex analyses that examined trade agreements' effects on the broader U.S. economy, e.g. NAFTA or the Uruguay Round. These new types of reports clearly became less about a particular agricultural sector's concerns with imports. Indeed, most of the 22 reports in 2002–15 that did focus on individual agricultural commodities concerned only two products: annual reports about imports of tomatoes and peppers that were required under provisions of NAFTA's implementing legislation. There were also a handful of reports that dealt with agricultural trade with a particular country (e.g. Brazil or India), but these did not focus on a single agricultural product.

The percentage of section 332 investigations on manufacturing industries rose from 28 percent during 1930–62 to 65 percent in 1968–79 and dropped to 38 percent during 1995–2001. Many of the investigations on manufacturing industries were high-frequency statistical reports that focused on sensitive industries. For example, from 1978 through 1980, the President requested an annual and quarterly survey on color television receivers that reflected increased pressure on this sector from East Asia, especially Japan.[1150] The President requested a similar series on iron bolts and screws as well as non-rubber footwear from 1978 through 2000. Similarly, the House Ways and Means Committee called for the Commission to publish monthly reports on the U.S. automobile industry from 1981 through 1984 and the steel industry from 1983 to 1990.

The Commission's shift away from data collection and monitoring individual import-sensitive sectors is clear from the experience of the steel industry. There were 27 investigations on the steel sector in the 1980–2001 period (excluding monthly and quarterly reports), which was a time of intense economic disruption and turmoil for the industry. By contrast, there were only two section 332 investigations involving the steel industry during 2002–15, both of which were focused on the impact of the 2002 steel safeguard tariffs on steel-consuming industries. In other words, the emphasis of these reports had become the impact of steel import restrictions on "consumers" and not on the challenges to the domestic industry from foreign steel sources.

The most important exception to this trend away from individual manufacturing sector analysis is with regard to the textiles and apparel industry. The number of investigations in this area reached 42 reports in 2002–2015. This continued emphasis reflects an ongoing political sensitivity in this area as well as the establishment of various unilateral preference programs discussed below.

As traditional import-competing sectors have received less attention, the Commission has undertaken far more investigations on issues that are focused on U.S. companies' activities abroad, most notably services, intellectual property rights, and foreign direct investment. All of these have taken on an increasingly important role in U.S. firms' engagement abroad. For example, prior to 1980, there was only one section 332 investigation focused on any of these areas; this investigation was initiated by the Senate Finance Committee and completed in

[1150] See for example USITC, *Color Television Receivers: U.S. Production, Shipments Inventories, Imports, Employment Man-Hours, and Prices, Fourth Calendar Quarter 1977,* USITC Publication 866 (Washington, DC: USITC, March 1978).

1973.[1151] After 1980, the focus on these issues notably increased. For example, the number of service sector reports more than tripled from 20 in 1980–94 to 75 in 2002–15. Similar patterns also are evident for studies that examine foreign direct investment. The increase in the number of reports that focus on intellectual property rights was particularly dramatic, growing from 5 in 1980–94 to 30 in 2002–15. It is important to note that, as with agriculture and manufacturing, relatively few investigations focus on any of these offensive sectors exclusively. Instead, they have become part of the standard analysis of any potential or concluded trade agreement. Commission fact-finding investigations also have looked over the horizon at broader issues that might not be part of a current or prospective policy but that play an increasingly important part in 21st century trade (e.g., a 2014 report on digital trade and a 2013 report on renewable energy services). Many of the Commission's recent initiatives therefore reflect the growing tendency of U.S. trade policy makers to look not only at those areas that will feel competitive pressure from more imports but also areas where U.S. firms' opportunities to export and invest abroad that can be affected by foreign goods and investment regimes as well as changes in the global economy.

What Geographic Areas Are the Focus of Section 332 Investigations?

U.S. multilateral, regional, and bilateral trade negotiations, trade preference programs, and growing anxiety regarding the increasing competitiveness of certain trade partners have been reflected in the geographical focus of recent section 332 investigations.

From 1947 through 1967, there were no section 332 investigations focused explicitly on the GATT system. As noted above, this does not mean that U.S. trade policy was not focused on the establishment and development of the multilateral trading system or that the Commission was not engaged in analysis about this system during the immediate post-war period. Instead, these efforts were conducted outside of the Commission's formal fact-finding section 332 efforts. This changed importantly in the post-1967 period. From 1968 through 2015, just under 20 percent of section 332 investigations were explicitly about the GATT or the WTO. The focus on multilateral negotiations was particularly intense during the Uruguay Round, with 62 section 332 studies. One of these reports, issued in 1994, analyzed the potential impact of the Uruguay Round Agreements on agricultural, manufacturing, and service sectors, reflecting the increasing complexity of trade agreements.[1152]

[1151] USITC, *Implications of Multinational Firms on World Trade and Investment, and for U.S. Trade and Labor,* USITC Publication 537 (Washington DC: USITC, January 1973).
[1152] USITC, *Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements*, USITC Publication 2790 (Washington DC: USITC, June 1994).

Even as it was undertaking reciprocal opening efforts, the United States also began to extend unilateral preferences to developing countries as part of a broader foreign policy and development strategy. Prominent examples included the Generalized System of Preferences (1974), Caribbean Basin Economic Recovery Act (1984), the Andean Trade Promotion and Drug Eradication Act (1991), and the African Growth and Opportunity Act (2000). Each of these initiatives allowed conditional tariff-free access for U.S. imports of certain goods from developing countries, often including textiles and apparel products. Congressional acquiescence in providing these unilateral preferences was gained, in part, because the enabling legislation required ongoing Commission analysis of the economic impact of these initiatives. In fact, almost one-quarter of all fact-finding investigations published by the Commission in 2000–15 involved unilateral preference programs.

U.S. trade policy priorities began to include regional and bilateral trade agreements during the 1980s and efforts have accelerated more recently. Notably, NAFTA was negotiated in the early 1990s and came into force in 1995. Further, the George W. Bush administration completed a series of bilateral and regional free trade agreements during its first term, including with Singapore, Chile, Australia, and others. Policy-makers have turned to the Commission to undertake economic analyses of these free trade agreements. These have taken the form of the previously discussed confidential studies provided to the USTR during negotiations as well as public reports that helped inform Congress about the potential impact of these agreements on the U.S economy.

The general public in the U.S. and policy-makers more specifically also have become concerned about the impact of particular countries' trade with the United States, especially a more recent focus on China. This stands in contrast with earlier decades where the focus was more on economic pressures on particular industries rather than general trade pressures arising from specific countries.[1153] Requests for Sections 332 investigations reflect this anxiety. From 1930 to 1979, there were only four instances on a particular country, and all of these involved Canada. From 1980 to 1994, focus continued on Canada (21 reports) but also expanded to Mexico (9 reports), the European Community/Union (11 reports), and Japan (5 reports).[1154] Requests to examine China expanded greatly from only 6 investigations during 1980–2001 to 11 investigations in 2002–15, which far exceeds the number of investigations on any other single country during this period.

[1153] Earlier reports, e.g., color televisions, were implicitly focused on trade with Japan though this was not the formal area of analysis.
[1154] Note that Canadian and Mexican totals do not include those that were part of a NAFTA investigation.

Economic Techniques Used in Section 332 Analysis

U.S. trade agreements are far more complex than they were in the 1960s and 1970s. Early trade agreements, conducted under the aegis of the GATT, generally involved reductions of traditional trade barriers, sometimes through mechanistic reduction in tariffs levels by some specific percentage. The Tokyo Round, concluded in 1979, saw negotiators turn their attention increasingly toward non-tariff barriers. U.S. negotiators addressed even more complex issues in the Uruguay Round and in later bilateral free trade agreements. These have included services trade, “behind-the-border” financial market reform, investment protections, and labor and environmental standards, among others. These multifaceted agreements, together with the evolving global economy, have pushed the Commission to use ever more sophisticated economic models to provide useful guidance to the President and Congress.

Fortunately, the increased complexity of the agreements over the last 30 years has coincided with far greater technical capacity of the economics profession. In addition, falling computer costs have allowed much more intricate and interconnected questions to be addressed. The Commission also made important investments in establishing greater internal capacity to analyze these more involved policy questions, especially since the late 1980s, most notably through hiring highly skilled Ph.D. economists from top universities.

Examination of the techniques used in 332 publications makes clear the Commission’s dramatic transformation from an agency that collects and reports data to one that conducts state-of-the-art economic analysis. For about the first 60 years of the Commission’s existence, 332 investigations most frequently used simple description, cost accounting concepts, or compilation of trade statistics. The Commission’s analytical approach began to change profoundly during the 1980s and early 1990s. Most importantly, the Commission began to employ various simulation approaches to examine and answer policy questions. These models are not “forecasts” per se, but examinations of “counterfactuals,” i.e., an examination of what economic conditions might have been with alternative policies in place.

Early approaches—outlined by Commission economists Donald Rousslang and John Suomela in a staff research paper[1155]—examined a single industry in isolation (i.e., “partial equilibrium”). For example, a report on the Caribbean Basin Economic Recovery Act examined a “simulated” U.S. economy in which the tariff concessions for Caribbean nations were not in place, i.e., one

[1155] Donald Rousslang and John Suomela “Calculating the Consumer and Net Welfare Costs of Import Relief,” USITC Staff Research Paper no. 15, July 1985.

with higher tariffs.[1156] The Commission used this model to examine a range of possible outcomes on consumers, producers, tariff revenue, and net U.S. welfare.

These partial equilibrium models provide important insights into the impact of policies on individual sectors and continue to be used when the focus of an investigation is on a particular industry. However, this class of models does not consider critical linkages across sectors. For example, if one industry contracts due to trade liberalization, resources may move to other expanding industries. Liberalization in intermediate products can lower production costs in a wide spectrum of domestic industries. The overall impact of a policy therefore will include "general equilibrium" (i.e., interconnected economy-wide) effects reflecting the adjustment of workers, capital, and intermediate inputs to new incentives arising out of trade policy changes.

The economics profession began to develop more complicated "computable general equilibrium" (CGE) models in the 1970s and 1980s that operationalized these theoretical concepts of cross-sectoral effects. This coincided with improved computer technologies that could efficiently run these very elaborate models of the entire economy. The Commission followed suit by developing in-house capabilities to examine counterfactuals with CGE models.[1157] In recent years, CGE models have become the Commission's standard approach to the examination of broad-based trade policies.

In 1991, the Commission published the first in a series of analyses (*The Economic Effects of Significant U.S. Import Restraints*) that used a CGE model to examine the costs of trade protection in particular industries on the overall U.S. economy using detailed sectoral information.[1158] Subsequent versions of this report continued to use refined versions of this same approach, all of which help U.S. policy-makers to understand the interaction of trade protection and the implications on U.S. firms and consumers.

The Commission now routinely employs CGE models to analyze the potential effects of multilateral, plurilateral, and bilateral trade agreements. Examples include analyses of completed negotiations such as the Uruguay Round and the U.S.-Korea free trade

[1156] USITC, *Caribbean Basin Economic Recovery Act Impact on U.S. Industries and Consumers,* USITC Publication 2225 (Washington DC: USITC, September 1989).
[1157] See USITC, *An Introduction to the ITC Computable General Equilibrium Model (Addendum to the Economic Effects of Significant Restraints),* USITC Publication 2423 (Washington, DC: USITC, August 1991), for a discussion of the broad concepts and uses of CGE models.
[1158] USITC*, The Economic Effects of Significant U.S. Import Restraints,, Phase III (Services with a Computable General Equilibrium Analysis of Significant U.S. Import Restraints),* USITC Publication 2422 (Washington, DC: USITC, September 1991).

agreement.[1159] The Commission also has used this class of simulation models to analyze the potential impact of policy changes.[1160]

The Commission's CGE models have begun to play a critical role in increasing policy-makers' understanding of the spillover effects of complex international trade agreements. Non-specialists, especially policy-makers and interested non-economists, sometimes interpreted earlier ITC-generated CGE outcomes as predictions of what the future might look like if a particular policy is enacted. Commission economists have understood this tendency and have inserted cautionary language to encourage appropriate use of the results. This language emphasized that these models were simulations of what an economy would look like in a particular base year if an alternative set of policies were in place.

As agreements have become more complicated, policy-makers' needs and expectations have grown. The CGE studies allow for nuanced and complex linkages across sectors, and indicate which sectors might expand or contract as a consequence of a trade policy change. Some outside critics have questioned the value of these models, pointing out that traditional CGE models hold some critical factors constant in order to solve the model. Most notably, early Commission CGE models held overall national employment constant (while allowing reallocation across sectors) or held the overall level of capital constant (abstracting from both inward and outward foreign direct investment). Given the growing importance of employment and outsourcing in trade politics, there has been strong pressure on Commission staff to adjust the models accordingly. Commission economists continue to work to include these important variables into their analysis, which would further inform decisions by the President and Congress. An important new analytical approach can be found in a 2016 report on the Trans-Pacific Partnership that tried to address a number of the issues that have been criticized in earlier investigations.[1161] In particular, this ambitious report includes a dynamic CGE model that allows the aggregate U.S. labor supply and capital stock to change over time and includes the impact of removing non-tariff measures on services and foreign direct investment.

[1159] See USITC, *Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements,* USITC Publication 2790 (Washington DC: USITC, June 1994) and more recently USITC, *U.S.-Korea Free Trade Agreement: Potential Economy-Wide and Selected Sectoral Effects,* USITC Publication 3949 (Washington, DC: USITC, September 2007).

[1160] USITC, *The Economic Implications of Liberalizing APEC Tariff and Non-Tariff Barriers to Trade*, USITC Publication 3101 (Washington, DC: USITC, April 1998).

[1161] USITC, *Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*, USITC Publication 4607 (Washington, DC: USITC, May 2016).

Conclusions

The International Trade Commission has played, and continues to play, a central role in U.S. trade policy. One particularly important function is to provide unbiased analysis of current and future economic conditions that are affected by U.S. trade policy that are in place or under consideration.

During its 100-year history, the Commission's economic analysis has undergone a dramatic transformation. In its early decades, the Commission's analysis essentially consisted of collecting data on import-competing sectors. This required a heavy reliance on compiling statistics on trade, domestic employment, profits, and production, usually without a formal structure to help guide the analysis. Over the last 25 years, the Commission's efforts in general fact-finding investigations have become more technically sophisticated as the trade policy initiatives by the President have become ever more complex. The Commission's studies—both those that are confidential and those made generally available to the public—have helped guide the President and Congress in the formulation of sound U.S. trade policy that is not just subject to current political winds.

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