I. 2005 Trade Policy Agenda

Overview

Introduction

Four years ago, the Bush Administration initiated a new trade strategy: to pursue reinforcing trade initiatives globally, regionally, and bilaterally. In the President's first term, the Administration has operationalized that strategy by launching and concluding major trade agreements that opened markets throughout the world to level the playing field for American farmers, ranchers, workers, and businesses and expanded choices for American consumers and industry. By pursuing multiple free trade initiatives, the United States has created a "competition for liberalization," launching new global trade negotiations, providing leverage to spur new negotiations and solve problems, and establishing models of success in areas such as intellectual property, e-commerce, environment and labor, and anti-corruption.

As the offensive gains ground, each new bilateral and multilateral agreement provides new rights and leverage for the United States to assure its workers, farmers, and businesses an equal chance to compete. During this Administration, legal resources devoted to enforcement have increased significantly. Enforcement is a critical part of every aspect of USTR's operations. From aggressive monitoring to summit-level meetings, the Bush Administration is focusing on ensuring that agreements made are agreements kept.

This year's annual report highlights the results of the Administration's ongoing efforts to open new overseas markets, level the playing field for American exporters, and vigorously enforce the trade commitments other countries make to the United States. In addition, on the tenth anniversary of the World Trade Organization (WTO), the report takes a special look at the benefits of U.S. membership in the multilateral trading system. When Congress approved the Agreement establishing the World Trade Organization in 1994, the Congress required a review of U.S. participation in the WTO at five-year intervals. The second five-year review occurs this year.

The record of U.S. participation in the WTO clearly demonstrates that continued engagement in the global trading system is vital for America. Through the WTO, the United States has lowered trade barriers in 147 economies around the world -- delivering expanded access to the 95 percent of global consumers who live outside our borders and helping to drive a 63 percent increase in U.S. exports of goods and services between 1994 and 2004. U.S. efforts in the WTO have extended a system of trade rules globally that protect innovation, provide for certainty and predictability, and form the vital legal infrastructure for enforcement. Without the WTO, other countries could impose higher duties on American exports. And without the WTO, the United States would not have the leverage it needs to address trade barriers that disadvantage American farmers, ranchers, workers, and businesses, including discriminatory tax policies and customs procedures, subsidies, unjustified antidumping actions and weak intellectual property protections. With unwavering U.S. leadership, ongoing negotiations through the WTO Doha Agenda can provide even greater economic benefits. The Administration will work with Congress and all stakeholders to achieve that goal.

The Administration's overall record of accomplishment through its global, regional, and bilateral trade agenda has produced significant tangible gains:

- More than 99 percent of U.S. exports of manufactured goods to Australia became duty-free immediately on January 1, 2005, when the United States – Australia Free Trade Agreement (FTA) went into effect. Manufactured goods currently account for 90 percent of total U.S. goods exports to Australia. This provision of the FTA is the most significant immediate reduction of industrial tariffs ever achieved in a U.S. FTA and will provide immediate benefits for America's manufacturing workers and companies. U.S. manufacturers estimate that the elimination of tariffs could result in $2 billion per year in increased U.S. exports of manufactured goods.
- Since implementation of the United States-Chile FTA on January 1, 2004, U.S. exports to Chile have increased 32 percent as compared to the same period the previous year -- over double the rate of growth in U.S. exports to other countries in Latin America. Among the benefits of tariff reductions negotiated in the FTA, U.S. exports of certain construction machinery have grown by 415 percent; tractors by 371 percent; shelled almonds by 329 percent; and motor vehicles used to transport goods by 60 percent.

- The United States-Singapore FTA went into effect on January 1, 2004. As a result, U.S. exports of furniture products to Singapore are up nearly 100 percent, U.S. workers producing information technology equipment have increased their sales by 62 percent, and overall U.S. exports have grown by more than 19 percent. Other significant export growth sectors include plastics, cosmetics, and pharmaceuticals; fish; construction equipment; building products, paper products; and scientific and medical equipment. Encouraged by new opportunities offered through the FTA, U.S. small and medium-sized enterprises also see Singapore as an excellent gateway to access the greater Association of Southeast Asian Nations (ASEAN) region and will benefit from the recently signed cooperative agreement between U.S. and Singaporean manufacturing associations.

- In the five nations of Central America and the Dominican Republic that are part of the United States - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR), innovative provisions in the FTA and an institutional framework for technical cooperation provide assurance to workers that their rights will be protected more effectively.

- Under the President's leadership, the United States played a leading role in launching the Doha Development Agenda (DDA) of the World Trade Organization in November 2001, and in advancing ambitious U.S. proposals in agriculture, goods, and services. After the breakdown of the negotiations in September 2003 at the Cancun Meeting of Ministers, U.S. Trade Representative Robert B. Zoellick worked to get the talks back on track in 2004. The United States worked with 147 other economies to narrow differences, establish frameworks for detailed negotiations on key topics, and solve problems so as to open the way for greater economic growth, development and opportunity. We sharpened the focus of the Doha negotiations, concentrating on the key market access areas of agriculture, industrial goods, and services. We also narrowed the focus on the "Singapore" issues to trade facilitation, which complements market access by easing the movement of goods across borders. On July 31, 2004, in Geneva, the DDA negotiations reached a significant milestone with a framework that provides direction for moving forward to the Hong Kong WTO Ministerial in late 2005.

- Strong enforcement at all levels is critical to ensure that American exporters reap the full benefits of global, regional, and bilateral agreements, and the Administration is using all available tools to promote compliance. Through bilateral engagement, the United States has resolved trade disputes with China, Japan, Mexico, Russia, Korea and many other countries. In October, the Administration announced the most comprehensive initiative ever advanced to protect American ideas and innovations by combating the multi-billion dollar global trade in pirated and counterfeit goods around the world. The Strategy Targeting Organized Piracy (STOP!) is a government-wide effort to empower American businesses to secure and enforce their intellectual property rights in overseas markets, stop fakes at our borders, expose international pirates and counterfeiters, keep global supply chains free of infringing goods, dismantle criminal enterprises that steal America's intellectual property, and reach out to like-minded trading partners to build an international coalition to stop piracy and counterfeiting worldwide.

- When necessary to enforce our rights, the Administration has initiated dispute settlement proceedings in the WTO. Last year, for example, the United States filed the first WTO dispute settlement case against China to address discriminatory tax policies that disadvantaged U.S. semiconductor exports worth more than $2 billion annually. We successfully resolved that case in less than four months to the benefit of American manufacturers and workers. Through recent WTO proceedings, the United States is also addressing unfair customs procedures and protecting American intellectual property rights abroad. We are also securing enhanced market access for dairy and apple farmers, telecommunications service providers, and manufacturers of apparel, automobiles, and biotechnology products.

- As a result of continuing enforcement efforts, persistent negotiating, and timely action by the United States in the WTO, China is now the fifth largest market for U.S. exports and our fastest-growing major export market (with exports up 86 percent since China's accession to the WTO). On the docks in Shanghai and other port cities in China, U.S. exports are arriving at record levels. These include high-value manufactured goods, such as integrated circuits and heavy machinery, and agricultural commodities, including soybeans and cotton. Business is also brisk for banks, insurance companies, and other U.S. service providers.

- USTR has also led the Administration's effort to combine trade with effective aid by building the capacity of developing countries to negotiate and implement trade agreements. Trade Capacity Building (TCB) work has included establishment of TCB Working Groups in the Andean and Thailand FTA negotiations that operate in parallel to the negotiating groups. The interagency TCB process has also sensitized agencies to the importance of conducting more TCB activities, according to a U.S. government survey. Thanks to Congressional support in 2004, the United States conducted $903 million in TCB assistance, an increase of 19 percent increase over 2003.

Building Momentum for Trade

The Administration's competitive liberalization strategy is producing tangible results. Only five years ago, efforts to launch new global trade talks collapsed in Seattle because countries could not agree on the way forward.

The United States played a key role in defining and launching a new round of global trade talks at the WTO at Doha in late 2001. At the same time we brought China and Taiwan into the WTO, establishing a legal framework for expanding U.S. exports and integrating China into a system of global rules. Also in 2001, the Administration worked with Congress to approve an FTA with Jordan and a trade and investment accord with Vietnam.

Previously, the United States had been stymied in its trade liberalization initiatives because authority for their negotiation and implementation had lapsed in 1994, and Congress was unable to agree on renewal. In this challenging environment, the President secured Congressional approval of the Trade Act of 2002 with bipartisan support, giving the Administration the tools it needed to move America forward in the global marketplace.

A critical component of the Trade Act of 2002 was the renewal of the President's negotiating authority through the Trade Promotion Act. In 2003, the Administration promptly put that authority to good use, promoting global negotiations in the World Trade Organization (WTO), working toward a Free Trade Area of the Americas (FTAA), completing and winning Congressional approval of state-of-the-art free trade agreements with Chile and Singapore, launching bilateral negotiations on FTAs with twelve more nations, announcing the intention to begin negotiations with eight additional countries, and putting forward regional trade strategies to deepen U.S. trade and economic relationships in Southeast Asia and the Middle East.

The Trade Act of 2002 also renewed and improved trade preferences covering an estimated $20 billion of business with developing countries in Africa, Latin America, and Asia through the renewal and improvement of the Andean Trade Preference and Drug Eradication Act (ATPDA), the African Growth and Opportunity Act (AGOA), and the renewal of benefits under the U.S. Generalized System of Preferences. In addition, the Trade Act of 2002 tripled the level of trade adjustment assistance (TAA) available to U.S. workers to over five billion dollars over a five-year period, which will help train American workers to compete for the jobs of the future. TAA is part of the overall total of federal resources that will support job training and employment services in 2005, which is estimated at over $20 billion.

In 2004, the United States continued building the free-trade foundation for a generation of prosperity and opportunity. After momentum in the Doha Development Round (DDA) at the WTO foundered at the Cancun Ministerial in September 2003, Ambassador Zoellick wrote to all WTO Ministers urging that 2004 not be a lost year for Doha negotiations. The letter also outlined ways to put the negotiations back on track; several of these ideas were subsequently taken up by other participants. In February 2004, Ambassador Zoellick traveled 32,000 miles and met with over 40 counterparts to hear their views and discuss how best to get the negotiations back on track. In May, Ambassador Zoellick hosted a small gathering of colleagues in London to facilitate a discussion on specific negotiating frameworks. He joined Ministers from the EU, India, and Australia at a gathering hosted by Brazil in Sao Paulo in early June to advance this work and traveled to Mauritius in July to meet Ministers from developing nations in the G-90, a group of ACP (African, Caribbean and Pacific), African Union, and Least Developed Countries. These discussions focused on the need to concentrate work on an agenda covering agriculture, goods, services, and trade facilitation.

Drawing on this extensive preparatory work, Ministers from diverse countries met in Geneva in late July to negotiate a WTO framework advancing the DDA, including an international commitment to eliminate agricultural export subsidies.

Also in 2004, the Bush Administration concluded and Congress approved FTAs with Australia and Morocco. The United States completed negotiations on FTAs with Bahrain and five countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic; the Administration looks forward to Congressional approval of these FTAs so they can be implemented promptly. The United States continued FTA negotiations with the five nations of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) and launched new FTA negotiations with Thailand, Panama, and three Andean nations. The President also announced to Congress his intention to begin FTA negotiations with the United Arab Emirates and Oman.

Congress acted decisively to bolster sub-Saharan African economies by expanding and extending the African Growth and Opportunity Act. The United States, along with its partners in the Asia Pacific Economic Cooperation (APEC) forum, is also paving the way to advance free and open trade and to realize lower transaction costs and reduce barriers in the Asia Pacific region.
The Administration values its close relationship with the U.S. Congress and appreciates the assistance and support that Members and staff provided on trade matters in 2004. USTR worked with the 108^{th} Congress to initiate and pass legislation on free trade agreements and WTO compliance measures, move forward on regional and multilateral trade negotiations, and maintain an ongoing dialogue on the overall U.S. trade agenda. The Administration looks forward to working with the Congress in 2005 on future trade initiatives.

Leading Multilateral Efforts to Expand Trade: The WTO

This year marks the tenth anniversary of the creation of the WTO, the agreed international framework that governs trade relations among nations. While much has changed since the WTO was created in 1994 at the conclusion of the Uruguay Round of Multilateral Trade Negotiations, U.S. leadership in strengthening an open, rules-based trading system has remained constant. Over the past ten years, membership in the WTO has grown from 128 to 148 economies, with another 29 negotiating terms of accession. Most notable over the past ten years has been the addition of China, Taiwan, and a number of transition economies to the WTO system. The United States has taken the lead in working multilaterally with trading partners to further expand the system.

Since establishment of the GATT in 1947, the expansion of trade has been historic: while the world's total GDP expanded seven-fold between 1950 and 2003, during the same time period the world's exports increased 25-fold. Since 1994 and the creation of the WTO, the world's exports have increased by 61 percent. For the United States alone, in 2004 the value of trade in goods and services (imports and exports), including earnings and payments on investment, was 31.5 percent of the value of U.S GDP, an increase from 13 percent in 1970 and 27 percent in 1994. In the 1990s, one-quarter of U.S. economic growth was spurred by exports. Jobs supported by goods exports pay about one-sixth more than the national average. Today, one in three acres planted in the United States produce crops intended for export.

The WTO, and the GATT before it, has made possible an expanded role for trade in fostering U.S. economic growth. But growing exports are just part of the story. Through the global trading system, the United States has negotiated predictable, transparent and binding rules that eliminate trade barriers and help ensure that U.S. goods and services are treated fairly in overseas markets. These enforceable rules commit the United States and its trading partners in the WTO to a level playing field and a single set of rules – whether it is the treatment of goods and services, the enforcement of intellectual property rights, or ensuring that decisions are taken on the basis of sound science and that non-tariff barriers in areas like standards and customs procedures do not impede market access opportunities.

Without the WTO, U.S. goods and services could face barriers and discrimination around the world in the form of unpredictable tariffs and non-tariff barriers. The WTO obligates its Members to provide a transparent, predictable trade regime based on the rule of law – including high levels of intellectual property protection, and disciplines to counter unfair trade practices like dumping and subsidies. Without the WTO, these obligations that work to America's advantage would not exist.

In his first term, President Bush made multilateral trade negotiations a priority in expanding the global economy, particularly in opening new markets for America's manufactured goods, farm products, and service providers. At the same time, strengthening the rules remains essential, including safeguarding the environment, for example, by disciplining subsidies to avoid over fishing. In the President's second term, concluding the Doha agenda of multilateral trade negotiations will be a top priority for the Administration.

The benefits of a successful negotiation have the potential to give new momentum to the global economy and further the development prospects of the poorer countries around the globe. A University of Michigan study estimates that a one-third cut in global barriers to goods and services would mean $2,500 a year in increased purchasing power for the average American family of four. The Center for Global Development found that a successful conclusion to the DDA negotiations could lift more than 500 million out of poverty and add $200 billion annually to developing country economies. The sharpened focus of the agenda is on the core areas for growth and development: agricultural reform and liberalization, along with the potential to expand market access for trade in manufactures and services and new rules on trade facilitation. These "market access" issues form the basis of a negotiation that can achieve significant gains for American interests and the global economy.

Looking ahead, WTO Ministers are scheduled to meet in Hong Kong, China, in December 2005, to chart the final stage of negotiations in order to bring them to a successful conclusion before the end of 2006. Advancing the WTO's DDA agenda will be a top priority for 2005, along with renewal of Trade Promotion Authority, so that the United States will be able to achieve our objectives for a comprehensive multilateral outcome that will promote prosperity and competitiveness for U.S. business, workers, ranchers, farmers, and their families.

Chapter II provides further details about the WTO in its first ten years and the central role it plays in U.S. trade policy. WTO rules provide a foundation on which the Bush Administration has built new Free Trade Area agreements. One need only look to areas like trade facilitation to see synergies that have been created between the customs chapters of our bilateral FTAs and the new negotiations in the DDA.

Beyond the DDA negotiations and the on-going work of the WTO in enforcing trade agreements, work will continue to expand the WTO's Membership through the accession of trading partners who presently remain outside the system. Twenty-nine governments are in the midst of negotiating the terms of their accession to the WTO and making the needed changes to their trade regime. The United States remains committed to advancing negotiations, particularly with partners such as Russia, Ukraine, Vietnam, and Saudi Arabia, which are making great strides to conform to WTO rules.

Advancing Bilateral and Regional Agreements

The United States' bilateral trade agenda is a vibrant and integral part of its trade strategy of competitive liberalization. Tariff reduction commitments in completed FTAs or those in negotiation could save approximately $4.13 billion in import duties for American firms whose products are sold abroad. These comprehensive, state-of the-art agreements also set modern rules for 21st century commerce. They break new ground in areas such as services, e-commerce, intellectual property protection, transparency, and in the effective enforcement of environmental and labor laws. Further, FTAs strengthen opportunities for progress in regional and WTO negotiations -- an important goal for 2005.

The Middle East

To create hope and opportunity in a region beset by violence and despair, the President announced his vision to establish a Middle East Free Trade Area (MEFTA) by 2013 to build on the foundation established by our FTAs with Jordan and Israel. The purpose of the initiative also is to deepen U.S. trade relationships with all countries of the region, through steps tailored to individual countries' level of development. The Administration worked hard to advance this important goal in 2004, linking Middle Eastern countries committed to economic reform from the Mahgreb to the Persian Gulf -- such as Morocco, Bahrain, the United Arab Emirates (UAE), and Oman -- and reinvigorating the region's rich history as an important area for trade. FTAs with these countries expand opportunities for American financial services, machinery, aircraft, vehicles, and a range of agricultural goods. For example, the UAE is America's third largest export market in the Middle East, with an estimated $3.7 billion in exports in 2004 and approximately 500 U.S. firms with operations in the country. The UAE's Jebel Ali port is world's fifth busiest harbor and the country is a regional shipping and business hub. The country is also a strong security partner, supporting U.S. efforts in Afghanistan, Iraq, and in the War on Terror, and working with the Administration on container security.

In 2004, the United States signed trade and investment framework agreements (TIFAs) with several Middle Eastern countries to encourage economic reform and explore ways to deepen our bilateral trade relationships. We are employing customized arrangements to resolve trade and investment issues, improve performance in areas such as intellectual property rights and customs enforcement, and lay the groundwork for possible FTAs. The United States now has TIFAs with Algeria, Egypt, Kuwait, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and Yemen. Recent signs of economic reform in Egypt encourage a potential deepening of its economic relationship with the United States.

In addition, the United States made progress with the WTO accessions of Saudi Arabia, Algeria, Lebanon, and Yemen. The United States recently extended GSP benefits to Algeria and Iraq as well. In December, the United States advanced economic relations between Israel and Egypt through an historic agreement that allows certain goods with Israeli inputs to be shipped duty-free from designated areas in Egypt's Qualified Industrial Zones (QIZs) to the United States. This is the most significant economic agreement between Egypt and Israel in the last 20 years, and supports the MEFTA by promoting regional economic cooperation, reform, and development that will lead to stronger overall ties between countries and help to achieve a stable, prosperous Middle East.

The President's vision of a Middle East that trades in freedom and, ultimately, in peace has received special attention. The 9/11 Commission unanimously recommended that the United States expand trade with the Middle East as a way to "encourage development, more open societies, and opportunities for people to improve the lives of their families." When the terrorism panel made this recommendation, the United States was already aggressively building the foundation for President Bush's vision of a MEFTA. Free trade agreements with Jordan and Israel had already been put in place. Congress was days away from voting to approve -- by a large bipartisan margin -- an FTA with Morocco, and U.S. negotiators were preparing for a final round of meetings that completed an FTA with Bahrain. In 2005, the Administration will continue to work to advance these historic goals.

Europe

The United States and the EU are actively exploring ways to enhance our vast transatlantic economic relationship. At the June 2004 U.S.-EU Summit in Ireland, President Bush, Commission President Prodi, and Irish Prime Minister Ahern agreed to the Joint Declaration on Strengthening Our Economic Partnership, which is aimed at promoting a fresh look at transatlantic trade and investment ties. The United States and EU have initiated a government discourse with business, labor, consumer and other elements of civil society on concrete ways for governments to improve U.S.-EU economic interaction. The results of these consultations with stakeholders on both sides of the Atlantic will be factored into renewed government-to-government discussions in the lead up to the 2005 U.S.-EU Summit.

USTR continued efforts in 2004 to enhance U.S.-EU regulatory cooperation and reduce unnecessary technical barriers to transatlantic trade. At the June 2004 US-EU Summit, President Bush and his EU counterparts welcomed the Roadmap for U.S.-EU Regulatory Cooperation. The Regulatory Cooperation Roadmap provides a framework for U.S. and EU officials to cooperate on a broad range of important product sectors and topics. In February 2004, the United States and the EU signed a new, precedent-setting mutual recognition agreement (MRA) on marine equipment.

During 2004, USTR continued its constructive engagement with the European Free Trade Association (EFTA) States. In November 2004, the United States concluded negotiation of an MRA with the EEA EFTA states (i.e., Norway, Iceland, and Liechtenstein) that covers telecommunications equipment, electro-magnetic compatibility (EMC), and recreational craft.

South and Southwest Asia

USTR continued to work closely with the countries of South and Southwest Asia to open their markets and to encourage cooperative work with the WTO. Ambassador Zoellick traveled to India and Pakistan in 2004 to consult on how to revive the Doha round of multilateral trade negotiations. The U.S. Trade Representative and Indian Commerce Minister worked closely together in the summer 2004 to find an acceptable formula for agricultural negotiations in the Doha Round. Officials from USTR met frequently with Indian officials to encourage greater access for American products and to bring India's intellectual property regime into compliance with the TRIPS agreement.

The United States held a successful TIFA Council meeting with Pakistan in 2004. In the summer, the United States and Pakistan also announced their intention to negotiate a Bilateral Investment Treaty. That negotiation will commence early in 2005. The United States continues to work closely with Pakistan on ways to improve its protection of intellectual property. The two countries also consulted continuously on matters relating to market access.

The United States and Sri Lanka held a successful TIFA Council meeting in the fall of 2004. That meeting focused on expanding trade through greater market access and improving transparency in procurement.

In 2004, the United States worked very closely with Iraq and Afghanistan on establishing their trade regimes. Trade issues were discussed formally twice with Iraq at Joint Economic Council meetings in Washington and Baghdad. The United States offered extensive training to officials from Iraq on customs, SPS, tariff and other trade issues. The United States and Afghanistan signed a TIFA in the fall of 2004 and will hold their first TIFA Council meeting in early 2005. The United States was pleased to assist both Iraq and Afghanistan in pursuing approval of their applications to accede to the WTO. Those applications were approved in December 2004 by the WTO's General Council. As their negotiations with the WTO proceed, the United States will offer appropriate training and assistance to speed their formal accession.

Southeast Asia and the Pacific Region

President Bush announced the Enterprise for ASEAN Initiative (EAI) in October 2002. Similar to the MEFTA, this regional initiative seeks to offer countries in Southeast Asia a step-by-step pathway to deeper trade and economic relationships. In 2004, the United States worked to fulfill the EAI by implementing the United States-Singapore FTA, launching FTA negotiations with Thailand, and signing a TIFA with Malaysia. An FTA with Thailand will offer additional opportunities for American businesses and farmers beyond an estimated $24 billion in total trade in 2004. A United States-Thailand FTA would be particularly beneficial to American farmers, who are one of the largest suppliers of agricultural products to the Thai market. In 2005, the Administration will continue its progress on this important FTA.

In addition to the TIFA with Malaysia, the United States will continue to use existing TIFAs with the Philippines, Indonesia, and Brunei, to solve practical trade problems and build closer bilateral trade ties. To help assist in post-tsunami reconstruction efforts, we will continue to make progress in our FTA negotiations with Thailand and intensify our discussions on ways to deepen trade ties with Indonesia, Sri Lanka, and other countries affected by this disaster.

In 2004, the Administration worked to bring Cambodia into the WTO, and it became a WTO Member in October. We also began negotiating a TIFA with Cambodia, which is expected to be concluded shortly. We continue to work with Vietnam on its accession to the WTO, which would bring the country's economy into the global system of rules-based trade.

The United States-Australia FTA, now in effect, will increase American manufacturing exports by an estimated $2 billion a year. The FTA eliminated tariffs on 99 percent of manufactured goods immediately when the FTA went into effect on January 1, 2005.

In East Asia, the United States is deepening its economic and trade ties with Japan and South Korea. We continue to update our bilateral engagement with Japan on key issues such as the privatization of government entities and to increase our joint cooperation on regional issues, including protection of intellectual property rights. In our work with South Korea, we are expanding our focus on the cross-cutting issues of regulatory reform and transparency and are exploring other means to strengthen our bilateral economic relationship.

.

Sub-Saharan Africa

In sub-Saharan Africa, the African Growth and Opportunity Act (AGOA) -- enacted in 2000 and expanded in 2002 and 2004 -- has created tangible incentives for commercial development and economic reform by providing enhanced access to the U.S. market for products from 37 eligible sub-Saharan African nations. Enhancements made to the AGOA in 2004 substantially improved access for imports from beneficiary sub-Saharan countries and address trade capacity-building needs. To build on AGOA's success and, as called for in the legislation, the United States is working with the five countries of the Southern African Customs Union (SACU) -- Botswana, Lesotho, Namibia, South Africa, and Swaziland -- toward establishment of a regional free trade agreement. Such an agreement would enhance U.S. ties with the region as it also would help to strengthen regional integration among the SACU nations.

The Americas

The Administration has made significant progress in its bilateral and subregional work with Latin America. U.S.-Latin America trade started off strongly in 2004 when the Chile FTA took effect on January 1. In August, the United States signed an FTA with a group of countries that constitute our second largest export market in Latin America -- Central America and the Dominican Republic -- and this year intends to send that agreement to Congress for approval. Also in 2004, the United States launched new FTA negotiations with Panama and three Andean countries (Colombia, Peru, and Ecuador). Moreover, the United States signed a Bilateral Investment Treaty (BIT) with Uruguay on October 25, 2004. When ratified by both countries, the BIT will strengthen their investment ties.

In the Caribbean, we continue to promote trade and economic opportunities, under the Caribbean Basin Initiative (CBI). During 2004, the Administration consulted with the private sector and Congress to ensure that the CBI benefits available to the beneficiaries in the Caribbean would not be diminished by implementation of the FTA with Central America and the Dominican Republic. We intend to work closely with the Congress in considering proposals so that the CBI program continues to provide significant economic benefits to the Caribbean Basin.

2004 also marked the ten year anniversary of the North American Free Trade Agreement (NAFTA). Since January 1, 1994, when the NAFTA entered into force, three-way trade among the United States, Mexico and Canada has reached over $623 billion, more than double the pre-NAFTA level. From 1994 to 2003, cumulative foreign direct investment in the three countries increased by over $1.7 trillion. These increased investment flows have brought more and better-paying jobs to all three countries, as well as lower costs and more choices for consumers and producers. During the 2004 NAFTA Ministerial, NAFTA partners reached agreement to liberalize the rules of origin for a broad range of foods, consumer and industrial products. Together, these changes will affect over $20 billion in trilateral trade. This work will continue in 2005, as the three countries seek to improve the region's trade competitiveness and attractiveness to investors, both domestic and foreign.

Free Trade Area of the Americas (FTAA)

The United States continues its efforts to move the hemispheric trade liberalization process, the Free Trade Area of the Americas, toward a successful conclusion. In Miami, in November 2003, the 34 trade ministers agreed on a revised framework for the FTAA negotiations involving two tracks: a "common and balanced set of rights and obligations applicable to all countries" and a mechanism for countries that so choose to pursue negotiations within the framework of the FTAA on additional rights, benefits, and obligations beyond those core commitments.

The United States supports this new framework because it promises to be a constructive way to accommodate different points of view and move the FTAA toward realization. We will continue our efforts to reach consensus among the 34 countries on this new framework during 2005. Progress in the FTAA talks will advance the goals of job creation and economic growth that will form the core of the agenda for the November 2005 Summit of the Americas meeting in Argentina among the 34 Presidents and Prime Ministers in the hemisphere. Trade liberalization through the FTAA can be a key tool for promoting investment, generating employment, promoting economic reform, speeding economic growth, and enhancing hemispheric integration -- all of which will help our countries to build futures for our peoples and to compete successfully in the global economy of the 21st century.

USTR's bilateral and subregional FTA work complements the FTAA. As the United States works to press forward on the FTAA that will economically integrate a region of 800 million people with a combined GDP of $13 trillion, we are also advancing a second track to promote free trade in the Americas: high-quality bilateral and subregional FTAs. As a result of this second track alone, the United States stands to gain the benefits of free trade with more than two-thirds of the non-U.S. GDP of the Western Hemisphere. Not only is this economic value significant but competitive liberalization, as embodied by these agreements, has also served to motivate our partners to resolve several long-standing labor, investment, and market access disputes.

Encouraging Economic Reform and the Rule of Law

USTR's process of negotiating bilateral and regional free trade agreements, followed by continuous monitoring and enforcement, provides the means to trigger and then lock-in broad economic reforms that address a spectrum of issues. America's efforts require new levels of environmental and labor law enforcement, government transparency, anti-corruption efforts, market-based reforms, and the rule of law.

At its core, the transformational power of trade comes from expanding and strengthening the core constituencies for these reforms, particularly by expanding the middle class and increasing the importance of independent business relative to the government.

The Chile, Singapore, Australia, Bahrain, and Morocco FTAs use innovative new mechanisms to meet environmental and labor objectives set out by Congress in the Trade Act of 2002. All the agreements envision cooperative projects to support environmental protection at the same time they require that parties effectively enforce their own domestic environmental laws -- an obligation enforceable through dispute settlement procedures. The CAFTA-DR FTA goes further with an innovative plan for involving civil society in the implementation of the environment chapter's obligations. Subsequent FTAs will continue to include this core idea while each will be tailored to the particular circumstances of each new FTA partner.

We have used our FTA negotiations to promote respect for international core labor standards among our trading partners. For example, reform of the labor code languished in the Moroccan Parliament for 20 years before United States-Morocco FTA negotiations helped provide the momentum for Morocco to update its labor code. In the CAFTA-DR countries, the United States also worked diligently during the negotiations to improve the application and enforcement of labor laws and to provide an institutional framework for technical cooperation on labor issues in the future.

Another feature of U.S. FTAs is the requirement that any monetary assessments for labor and environment violations be spent on programs to fix the problems that gave rise to the assessments, putting the emphasis on correcting shortcomings.

The dispute settlement procedures of the new FTAs also set high standards for openness and transparency, such as holding open public hearings, public release of legal submissions by parties, and the opportunity for interested third parties to submit views. In all cases, the emphasis is on promoting compliance through consultation, joint action plans, and trade-enhancing remedies.

Trade Capacity Building

TCB is a critical part of the U.S. Government's strategy to enable developing countries to negotiate and implement market-opening and reform-oriented FTAs. In FY04, the U.S. conducted $903 million in TCB activities, up nearly 20 percent ($761 million) from FY03.

The United States also recognizes that coordination of technical assistance activities among the Inter-American Bank, the WTO, the World Bank, the International Monetary Fund, and other donors is very important. The U.S. Government's efforts include contributions to the WTO's Annual Trade-related Technical Assistance program and the Integrated Framework, assistance to countries acceding to the WTO, targeted support for developing countries participating in U.S. preference programs including African Growth and Opportunity Act and the Andean Trade Promotion and Drug Eradication Act, and the TCB working groups that are integral elements of the FTAA Hemispheric Cooperation Program and the Andean and Thailand FTA negotiations. TCB assistance is helping countries work with the private sector and non-governmental organizations to transition to a more open economy, prepare for FTA and WTO negotiations, and implementing their trade obligations.

The U.S. Trade Representative is a member of the Millennium Challenge Corporation's (MCC) Board of Directors. The purpose of the MCC is to ensure that the President's vision of a new "global development compact" is implemented in a manner in which "greater contributions from developed countries [are] linked to greater responsibility from developing nations." In 2004 and continuing in 2005, USTR is working to improve integration of trade into the development plans of eligible and threshold countries so that each country's MCC agreement taps into the potential for trade to spur economic growth and reduce poverty.

Enforcing U.S. Rights

The Administration's high-quality FTAs establish a critical legal infrastructure for enforcement. The bulk of the work done day-in and day-out is to use every opportunity and every point of leverage in these and other agreements to ensure that countries live up to their current commitments and to solve problems for American businesses, farmers, and workers.

The scope of enforcement extends well beyond the number of cases brought before WTO or NAFTA tribunals. On any given day, many U.S. companies meet with USTR, Commerce, and other agencies to decide how best to press foreign governments to live up to their commitments to open up their markets to U.S. goods and services and to protect U.S. investment and intellectual property rights.

The vast majority of enforcement efforts are brought to successful resolution without the need to resort to formal litigation. Most U.S. companies urge us to do everything that we can to resolve a problem quickly without bringing a WTO or FTA case.

Many problems are resolved in the context of FTA talks. Before our trading partners can hope to begin negotiations for an upgraded trading arrangement like an FTA, they must fix existing problems. Before completed trade agreements can be taken to Congress, our trading partners must show additional progress and prevent new problems from occurring. Strict enforcement mechanisms are at the core of all agreements and are in effect from the first day when an FTA enters into force. The United States uses every tool and every opportunity to press our trading partners to address our concerns.

Informal means of resolving trade issues have created these results:

- U.S. biotech farm exports and key financial services have expanded their access to China's market;

- Japan has strengthened intellectual property protections and lowered certain customs processing fees by 50 percent;

- Mexico has implemented rules for pharmaceuticals that respect U.S. patents and has also worked with the United States to resolve outstanding apple, hog, poultry, dry bean, and beef market access issues;

- Russia has made commitments for market access opportunities for U.S. poultry, pork, and beef exports based on historical trade levels that provide room for growth;

- Taiwan has addressed rice and motorcycle export problems and is working to improve IPR protection;

- Korea reopened its market to California oranges; and

- Hong Kong has forced the closure of companies that were illegally producing optical discs.

Sometimes, however, enforcement can only be achieved through litigation, and we stand prepared to bring cases under the WTO, NAFTA, and other FTAs to secure compliance. USTR is currently pursuing 10 cases with 6 countries in the WTO, and we are defending in another 23 actions.

USTR is working to resolve a number of high-profile WTO disputes with the European Union and exploring opportunities to enhance the already enormous transatlantic trade and investment relationship.

We continue to focus more of our enforcement resources on China. Although China has undertaken significant efforts to move away from its centrally-planned economy and to bring its laws and regulations into line with WTO rules, China must do more to meet its obligations:

- USTR is monitoring and aggressively enforcing China's trade commitments undertaken by China as part of its WTO accession, which includes completion of the annual report on China's compliance with its WTO commitments.

- Since April 2004, USTR, in conjunction with the Department of Commerce, convened meetings of the Working Groups created at the April 2004 meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT), and planned additional meetings in the spring of 2005. These Working Group meetings have addressed and will continue to be utilized to address U.S. trade policy goals in intellectual property rights, agriculture market access, China's economic structure, textiles, statistics, and trade remedies; evaluate previous JCCT accomplishments; and develop an ongoing and focused problem-solving agenda for cabinet-level meetings of the JCCT.

- With counterfeiting and piracy of American ideas and innovations at epidemic levels in China, improving China's IPR protection is a top priority for the United States. The Administration has pressed the Chinese at every opportunity on this issue. During the 2004 JCCT meeting, co-chaired on the U.S. side by Secretary Evans and Ambassador Zoellick, Chinese Vice Premier Wu Yi presented an action plan to address U.S. concerns with piracy and counterfeiting. The Administration is monitoring implementation of this action plan closely and is conducting an out-of-cycle review to assess China's implementation of its commitments to substantially reduce IPR infringement levels. The Administration has also called on U.S. companies to submit the necessary information to enhance our monitoring of China's IPR enforcement efforts. The United States will continue to place the highest priority on this issue throughout 2005.

- We are seeking changes in Chinese industrial policies that limit market access for non-Chinese-origin goods or seek to extract technology and intellectual property from foreign rights-holders.

- USTR is also working to ensure that China adheres fully to its commitments to open service sectors and does not maintain or erect new entry barriers.

- We are striving to minimize adverse impact to U.S. industry caused by the transition to quota-free textiles and apparel trade.

Protecting Intellectual Property

The Administration announced in October 2004 a major new government-wide initiative, the Strategy Targeting Organized Piracy (STOP!), to fight billions of dollars in global trade in pirated and counterfeit goods that cheat American innovators and manufacturers, hurt the U.S. economy and endanger consumers worldwide. Key elements of the STOP! initiative include:

- Helping and empowering American businesses, inventors and innovators, particularly small businesses, to secure and enforce their rights in overseas markets;

- Ensuring consumer safety by securing America's borders and marketplace from fakes;

- Raising the stakes and making life more onerous for intellectual property thieves through new customs methods that increase costs to violators far beyond seizing shipments and by naming and shaming global pirates and counterfeiters who are producing and trafficking in fakes;

- Developing a "No Trade in Fakes" program in cooperation with the private sector to ensure that global supply chains are free of infringing goods;

- Working to dismantle criminal enterprises that steal intellectual property, using all appropriate criminal laws, and overhauling, updating and modernizing U.S. intellectual property statutes; and

- Joining forces with like-minded trading partners concerned about the growing global IPR piracy problem, such as the European Commission, Japan, the United Kingdom, and France, which have all recently launched initiatives.

Complementing STOP! is USTR's Special 301 report on the adequacy and effectiveness of IPR protection in trading partners around the world, published annually at the end of April. The 2004 report found that although several countries have taken positive steps to improve their IPR regimes, the lack of IPR protection and enforcement continues to be a global problem. It called for special out-of-cycle reviews for Israel, Malaysia, Poland, Taiwan, and China to evaluate steps those countries have taken to improve IPR laws and enforcement. The reviews for Poland, Malaysia, and Taiwan were completed in January 2005. As a result of the findings, Taiwan was moved from the Priority

Watch List to the Watch List due to the progress it achieved in strengthening enforcement and copyright protection. No change was made to the Watch List status for Poland and Malaysia. The 2005 Special 301 report will be published on April 29, 2005.

The Administration is utilizing various tools to strengthen IPR protection in other countries with significant infringement problems. For example, in response to an industry petition, we extended a review of Brazil's trade preferences under the Generalized System of Preferences Program to improve Brazil's IPR enforcement. Brazil has taken some positive steps, but needs to take further measures to adequately address serious piracy concerns. The United States will continue to press Brazil on its IPR issues in 2005.

Copyright piracy continues to run rampant in Russia as well, and Russia's current IPR regime remains deficient. As with Brazil, the United States is implementing the IPR provisions of our GSP statute (including possible removal of one-way trade preferences) to bring about an improvement in Russian IPR protection. In 2004, the Administration engaged with the Russian government at all levels to solicit change, and in June of last year, the Russians released an action plan to address deficiencies. Russia has passed several important pieces of IPR-related legislation and has raided plants that produce pirated goods. More actions need to be taken, however, and the United States will continue to work with the Russians to better protect IPR in 2005.

Pharmaceutical Trade Policy:

The Administration has worked to support continued gains in health and longevity globally by fostering continued pharmaceutical research and development and promoting fair sharing of the costs of development of innovative drugs. The Australia FTA is the first FTA negotiated by the United States to include non-market access provisions on pharmaceuticals such as specific commitments on transparency, accountability, and due process. The FTA also establishes a Medicines Working Group to provide for a continued dialogue between the United States and Australia on emerging health care policy issues. In addition, the Administration has initiated discussions with other developed country trading partners on their pharmaceutical regulatory systems and the need to encourage continued innovation in health care.

The United States has also vigorously pursued policies to protect intellectual property rights in a way that is consistent with promoting public access to medicines. Strong intellectual property protection is a powerful force supporting public health objectives. It provides incentives for the development and launch of the latest cutting-edge products as rapidly as possible.
At the same time, the United States has sought to ensure that intellectual property rules provide sufficient flexibility for countries to deal appropriately with public health emergencies. The United States was instrumental in reaching an agreement [the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS)/health solution] in the WTO in August 2003 to allow countries to use compulsory licensing to produce and export drugs to developing countries that cannot produce the drugs for themselves. The United States is fully committed to working with other WTO Members to transform the TRIPS/health solution into an amendment to the TRIPS Agreement.

In 2004, the Administration worked closely with Canada to suspend certain provisions of NAFTA to ensure that Canada could implement this arrangement without running afoul of NAFTA obligations. The United States has also negotiated special side letters to its FTAs with Morocco, Central America, and Bahrain that state that the FTAs' intellectual property rules would not limit a country's ability to take measures necessary to protect public health and would allow effective utilization of the TRIPS/health solution.

Looking Back; Looking Forward

At the beginning of the Bush Administration, the United States had FTAs with three countries, one of which dated back to 1985. Thanks to Congressional approval of Trade Promotion Authority in 2002, the United States now has completed negotiations with 12 countries, and is currently negotiating with 12 more. Taken together, these 24 current and future trading partners constitute America's third largest export market, with $78 billion in U.S. exports in 2004, and the world's sixth largest economy.

These FTAs have advanced America's interests by opening new markets for U.S. products and services, increasing protection of intellectual property, streamlining customs procedures, and strengthening labor and environmental laws and their enforcement. Bilateral negotiations also serve as a vehicle to resolve important disputes that might otherwise never have been resolved without such leverage. All of these achievements translate into free and fair trade, leveling the playing field for American workers and farmers who export their goods abroad, and lowering costs for goods American consumers buy everyday.

In 2005, the United States is seeking to expand on this record of accomplishment, with an active and comprehensive trade liberalizing agenda. While working to further open markets, the Administration will continue to focus on monitoring and enforcing existing U.S. trade agreements and trade laws, building the capacity of developing countries to participate in the global economy, and making the case for free trade to the American public.

In 2005, the Bush Administration will also continue moving quickly to bolster reform-oriented countries across the Middle East by negotiating free trade agreements with Oman and the UAE while helping other nations reform their economic and legal systems as a way to build the path to FTAs with the United States. The United States is encouraged by recent signs of economic reform in Egypt, and the QIZ agreement is one tangible result.

As USTR intensifies efforts in the Middle East, the United States will not lose focus on other important trade and foreign policy interests. In the 1990s, the end of bitter civil wars and communist-funded insurgencies allowed hope and democracy to blossom anew in Latin America. The United States is moving to protect these fragile democracies as they move along the path to reform. Congress can act quickly to pass the CAFTA-DR while the Bush Administration works aggressively to finish on-going negotiations with Colombia, Ecuador, Peru, and Panama. Once these FTAs are in place, the United States will have united countries representing two-thirds of the Americas' non-U.S. GDP in free trade with the United States. To further integrate the region and to reinforce effective economic strategies and democratic development, the United States will continue its engagement toward conclusion of the Free Trade Area of the Americas.

In the Asia-Pacific, the United States will work to expand opportunity in the region through further integration of these economies, playing a strong leadership role in economic issues, and ensuring that growing trade powers, such as China, uphold their commitments to key WTO principles of market access, non-discrimination, national treatment, and transparency.

USTR is seeking new ways to work together with the European Union to further the Doha negotiations. We are also working to resolve ongoing trade disputes and to explore further opportunities to enhance our important transatlantic trade and investment relationship.

Before April 1, 2005, the President must notify Congress of his intent to extend trade promotion authority until July 1, 2007. Such authority would be extended if neither House of Congress adopts a resolution disapproving the President's request. The United States has an active trade agenda, including ongoing multilateral trade negotiations at the WTO, FTA negotiations under way with twelve countries, and regional free trade initiatives in Latin America, Southeast Asia, and the Middle East. The Bush administration has actively employed trade promotion authority for the benefit of the

American people and plans to continue its active efforts to open markets globally, regionally and bilaterally.

Robert B. Zoellick
United States Trade Representative
February 18, 2005