

**STATEMENT OF U.S. TRADE REPRESENTATIVE SUSAN C. SCHWAB
BEFORE THE
U.S. SENATE FINANCE COMMITTEE
THURSDAY, MARCH 6, 2008**

Mr. Chairman, Senator Grassley, members of the Committee. I appreciate this opportunity to discuss the 2008 Trade Agenda.

The Importance of Trade

Trade is a critical component of our economy. It is helping to sustain our economic growth. Last year, the growth of exports of U.S. goods and services made up more than 40 percent of our economic growth. At greater than \$1.6 trillion in 2007, goods and services exports reached almost 12 percent of our GDP, their highest level ever.

Therefore, our trade agenda is clear – we need to help move this economy forward by opening markets to for American businesses.

To do this, we will work to:

1. Approve our pending free trade agreements with Colombia, Panama and South Korea, and
2. Reach a successful conclusion of the Doha Development Round of multilateral trade negotiations.

We will also work with congressional leaders to reform and reauthorize Trade Adjustment Assistance. Finally, we will to continue to aggressively enforce existing agreements. We accomplished a great deal last year and, working together, we can accomplish even more in 2008.

As 2007 was drawing to a close, we were able to catch a glimpse of what could and should be the rebirth of a bipartisan pro-trade coalition on Capitol Hill, when both Houses approved the Peru Trade Promotion Agreement by strong bipartisan margins. Everyone had to give a little to get there – witness last year’s May 10 bipartisan accord – but these strong votes must be the basis for our work going forward to secure passage of the remaining FTAs and renewal of Trade Promotion Authority.

Now more than ever, it is vitally important to break down the walls that impede American businesses from trading with the other 95 percent of their potential customer base – the rest of the world.

Anyone who doubts the positive impact of agreements like the Doha Round and the three pending FTAs need look no further than the Uruguay Round and the North American Free Trade Agreement. The collective impact of those two agreements is felt today by the average American family of four – to the tune of a boost to annual income of \$1,300 to \$2,000.

In fact, compared to the period prior to these two agreements, the decade-plus that followed their enactment was characterized by stronger U.S. economic growth, higher manufacturing output, and lower unemployment.

As a result of the success of our existing FTAs, our trading partners, including Canada and Mexico, are among our most pro-trade allies in Doha. They understand that trade-liberalizing agreements contribute to growth in trade, which in turn contributes to economic growth and prosperity for the vast majority of our people.

Our FTA partners are also among the most rapidly growing markets for our exports. In fact, U.S. exports to the 11 FTA countries implemented since NAFTA have grown nearly 80 percent faster than U.S. exports to the rest of the world

As we move forward with our busy trade agenda this year, I am confident that by working together we can accomplish a great deal. This committee, under your leadership Chairman Baucus, and yours, Senator Grassley, has always ensured that trade policy remains a bipartisan issue.

I still believe that we can achieve a cooperative approach to economic engagement and leadership in the world that transcends party, president, and Congress. Democrats and Republicans have managed to work closely together for more than 70 years on trade issues.

The mission of opening markets, spurring development, and keeping the United States at the forefront of a rules-based trading system must go beyond party affiliation. We all have a responsibility to deliver results for the American people.

The FTAs

Those who say they want a more level trade playing field need look no further than the two pending Latin American FTAs. These agreements with Colombia and Panama will provide a level playing field by transforming one-way free trade with those nations into two-way free trade.

Both the House and Senate voted twice in the last 15 months to continue giving virtually all Colombian exports tariff-free access to the United States under the Andean Trade Preference Act – and they were right to do so. In addition, the vast majority of Panamanian exports currently enter the United States duty-free under the Caribbean Basin Initiative.

I ask the Senate to now vote to give American businesses the same preferential treatment when they export to both of these markets. The only way to do that is by approving these FTAs.

As for the U.S.-Korea (KORUS) FTA, it would be the most commercially significant FTA the U.S. has concluded in the past 15 years.

A “no” vote on any of these FTAs is a vote against U.S. exporters – manufacturers, service providers, and agricultural producers – including more than 20,000 small and medium size businesses who currently export to these three countries.

A “no” vote has critical implications for U.S. competitiveness and for our leadership in the world economy.

A “no” vote is akin to sitting on the sidelines as the rest of the world sprints by.

Colombia

First on our trade agenda is the Colombia Trade Promotion Agreement.

The Government of Colombia and the vast majority of Colombians realize the difference between temporary preferences and the exchange of permanent commitments through an FTA between sovereign nations.

With labor and environment issues addressed in our bipartisan agreement of May 10, critics of this agreement now claim that their opposition is rooted in Colombia’s inability to corral systemic violence – including that which has impacted some of the country’s union members. They question the Colombian government’s commitment when it comes to bringing these perpetrators to justice.

Yet, the reality on the ground paints a very different picture.

Thanks to the Colombian Government and to Plan Colombia – a bipartisan initiative launched by the Clinton Administration – the progress on the ground is heartening, inspiring, and represents real results.

One recent study shows that levels of violence have been reduced substantially, with the murder rate at its lowest level in over a decade, and with kidnappings down more than 80 percent since 2002. In fact, since 2002 the homicide rate has dropped by 40 percent, and homicides of unionists have dropped more than twice as fast.

In addition, more than 31,000 paramilitary members have demobilized collectively under the Justice and Peace process, and over 10,000 former guerilla members have demobilized individually.

And the criminal drug threat, while still a monumental challenge, is being met head-on by Colombian authorities who are making steady progress working with us to bring drug kingpins to justice in record numbers.

And it is not a coincidence that the country has succeeded in dramatically reducing homicides, violent crime and kidnappings as the government has reclaimed authority over parts of the country previously controlled by terrorist groups like the FARC.

The Colombian government has also made extraordinary efforts to protect vulnerable populations. In 1999, the Colombian government established a special program to protect labor union leaders and their families, as well as other vulnerable groups. Today, more than 9,400 people are protected by that program, of which almost 2,000 are union members.

Since 2002, the Colombian government has increased the annual budget of the judicial branch and the Office of the Prosecutor General by 75 percent. A special unit was created within the Office of the Prosecutor General to address 187 priority cases of violence against labor unionists – cases identified by Colombia’s three leading labor unions – as well as the case backlog. New judges have been hired and are dedicated specifically to addressing these cases.

I want to point out that all of these efforts were launched before our Free Trade Agreement negotiations began. They reflect strongly held commitments on the part of the government of Colombia to the people of Colombia.

You’ve heard the phrase: “Past performance is not indicative of future success”? The opposite is the truth here. Past performance is the single best indication of future success. President Uribe has a track record as a transformational leader. His commitments really count.

Perhaps the best measure of the success that Colombia’s President Uribe can claim for bringing enhanced stability and prosperity to his country lies with the clear vote of confidence of the Colombian people – a Gallup poll taken in January showed that President Uribe enjoys an 80 percent approval rating.

The fact is, Members of Congress who have joined Administration officials on recent visits to Colombia have found a country completely transformed. A mere eight years ago, this nation teetered on the edge of becoming a failed state.

Every recent study that has been done on violence in Colombia shares a common thread – they all show that the trend line is moving firmly in the right direction. Yes, there is more to be done. But we must ask ourselves: When will we not only acknowledge, but reward, the Colombian’s commitment to a just and secure state and their multi-year record of unequivocal success?

The time is now.

The FTA will serve to ensure an active U.S. role in fostering stability and security in a region of critical interest to our national security – a region that is home to some who loudly advocate a different path than the pro-market, pro-growth, pro-U.S. stance adopted by Colombia’s current leadership.

Colombians rightly believe this FTA will lead to greater economic growth. The government has made great strides in turning people away from violence, but they need to be able to provide alternatives – namely more jobs.

And we have an historic opportunity to help by providing the certainty that comes with taking temporary preferences and making them permanent. By implementing the Colombia FTA, we can also contribute to further success. By delaying its consideration, or voting it down, we accomplish nothing. Or worse.

Their struggle is our struggle, and it is our duty to support the courageous Colombians who are dedicated to furthering the causes of democracy and prosperity in this strategically vital region.

Events of the past week make clear the importance of doing everything we can to help the Government of Colombia keep its economy growing, and to create jobs and opportunities for Colombia's poor. This agreement will support the people of Colombia who want to see a prosperous, inclusive Colombia, a Colombia with a strong representative democracy and growing open economy.

Make no mistake about it, how we deal with the Colombia FTA will be widely viewed as the proxy for how we treat our friends in Latin America. In conversation after conversation with leaders in the Americas, the outcome of the Colombia FTA is clearly seen as symbolic of the United States' attitude toward the entire continent.

This Administration will not yield in our efforts to persuade the Congress to do the right thing – and approving the Colombia FTA is most assuredly the right thing.

Panama

Panama is not only economically important, but also geo-politically important. It is part of a strategic bridge between the United States and Latin America.

The FTA, which we signed last June, represents an historic development in our relations with Panama and responds to Congress' objective, as expressed in the Caribbean Basin Trade Partnership Act. It is the appropriate next step in our long bilateral relationship.

The FTA will create significant new opportunities for American workers, farmers, businesses, and consumers by eliminating barriers to trade with Panama. Approximately 88 percent of U.S. exports of consumer and industrial goods, and more than half of U.S. farm exports, will become duty-free immediately when the FTA enters into force.

The FTA will also create new market opportunities in Panama for a range of key U.S. services suppliers and will lock in access in sectors where Panama's services markets are already open. It will also help ensure a stable legal framework for U.S. investors in Panama.

The FTA ensures that U.S. suppliers will be permitted to bid on procurement by the Panama Canal Authority, including for the \$5.25 billion Panama Canal expansion project, which is expected to begin this year and to be completed in 2014.

And, of course, the FTA includes labor and environment provisions which fully reflect the May 2007 bipartisan agreement on trade between the Administration and Congressional leadership.

South Korea

The KORUS FTA is the most commercially significant FTA the United States has concluded in the past 15 years. This agreement will open a growing market of 49 million consumers to the full range of U.S. goods and services, from autos to telecommunications services. In fact, the U.S. International Trade Commission estimates that the reduction of Korean tariffs and tariff-rate quota provisions on U.S. goods alone would pump \$10-12 billion annually into our economy.

In addition, the KORUS FTA contains state-of-the-art protections for intellectual property rights, including for the digital products and emerging technologies that are crucial for advancing U.S. prosperity in the 21st Century.

More broadly, the KORUS FTA is a powerful symbol of the United States-South Korea partnership, augmenting our longstanding bilateral security alliance, and strengthen our relations with one of our most important and reliable allies in Asia.

The KORUS FTA will serve as a powerful demonstration of the United States' economic engagement in and commitment to the Asia/Pacific region, strengthening the U.S. presence in the most dynamic and rapidly-growing economic region in the world.

Failure to approve and implement the KORUS FTA in a timely manner will result in the loss of new and important access to the Korean market in the manufacturing, agricultural, and services sectors. It would also put U.S. exporters at a competitive disadvantage, as Korea's other free trade partners will receive preferential treatment in Korea's market while the United States does not.

In addition, inaction on the FTA will undermine the United States' leadership and credibility in promoting open markets and fair competition, not only in Korea, but globally, setting back vital U.S. geostrategic goals and undercutting U.S. global economic competitiveness.

Partnering for FTA Passage

From my personal interaction, I can confirm that many members of both the House and Senate want to work with us to approve these FTAs, as they did with the Peru agreement. They realize that these trade deals are in America's best interest and the approval of the remaining three FTAs would advance the standards of trade set by our groundbreaking, bipartisan agreement with the House last May.

Now is the time to approve these remaining agreements, beginning with the Colombia FTA. The legislatures of Colombia and Panama have already approved their FTA agreements, and South Korea's legislature is expected to act in the near future.

Doha/WTO

The Doha Round is the President's highest trade negotiating priority. He is committed to concluding an ambitious Doha Round this year that will increase economic growth and development, and alleviate poverty by generating new trade flows in agriculture, manufactured goods, and services.

These three areas form the market access core of the Round. Forging a strong result in each area remains the key to achieving a breakthrough that would propel the negotiations toward the finish line.

We are committed to do everything possible to successfully conclude Doha, short of signing off on an unambitious deal.

The only agreement worth doing is one that creates new and real market access worldwide—particularly in key emerging markets that are becoming major players in the global economy. Such an agreement would give a strong boost to American interests, and it is also the only kind of agreement that meets the development promise of Doha.

The central focus of intense ongoing work in Geneva is the latest revised draft negotiating texts from the chairs of the Agriculture, Non Agriculture Market Access (NAMA), and Services negotiating groups. We are not alone in our concern about the serious potential erosion of ambition evident in the most recent Ag and NAMA texts.

Despite our disappointment, the Agriculture and NAMA texts remain broad enough that we can see the potential for various combinations of options that would still benefit U.S. businesses and American consumers – as well as contribute significantly to development and the alleviation of poverty abroad. It is on that basis that we are continuing to work in Geneva.

The Services text also needs additional work, but we feel that it also has potential. In the past few weeks, we've been successful in raising the energy level in these critical negotiations and have pointed them toward a path forward. We must now move beyond the first iteration of the Services text to one where members make commitments to bind current levels of market access and to create new market access.

We have also begun efforts – working with some key partners – to renew a bilateral and plurilateral consultative process on Services market access among developed and major developing countries. These efforts are aimed at culminating in minister-level engagement in parallel with the Agriculture and NAMA negotiations.

We are there at the table in Geneva and every bit as committed to a successful outcome to Doha as we were when our leadership helped launch the Round in 2001. It was U.S. leadership that put the pieces back together after the Cancun breakdown, and it was our efforts that brought about the resumption of negotiations in 2005 and after the 2006 suspension. We are committed to provide the leadership necessary to bring the Doha Round to a successful conclusion.

We seek an agreement that will create real market openings. We know we need to do our share when it comes to tariff peaks and trade distorting subsidies. We also know that there can be no successful Doha Round unless our developed and advanced developing country trading partners also make meaningful contributions.

The Doha Round is likely to be a critical agreement for America and the world – particularly the developing world – with important implications for global economic growth, capacity building, and the use of trade to promote positive outcomes in the environment. We have a window of opportunity and we will use it wisely.

Enforcement

Enforcement of our trading partners' WTO commitments remains a top priority. We will continue to use dialogue with our partners to try to resolve problems on a bilateral basis.

However, where dialogue is not successful, we will not hesitate to use WTO dispute settlement, whenever appropriate.

Let me turn for a moment to China as an example. In terms of dialogue, we have been forceful with China about our concerns on the direction taken by several ministries to support national champions and protect non-competitive industries; to use standards to limit competition from imports; and to pursue trade-distortive export policies. We have also used dialogue to encourage those outward-looking, entrepreneurial forces and thinkers within China.

When dialogue has failed, we have not hesitated to use the tools at our disposal to enforce China's WTO commitments. We have been the most active member in seeking to resolve disputes with China at the WTO, having launched six cases since 2004 – including a new case on financial information services which was filed on Monday.

We were able to reach favorable settlements with China in two cases, including recently with their elimination of a dozen export and import substitution subsidies. We expect the WTO to hand down decisions this year in the three remaining cases – on auto parts, intellectual property rights enforcement, and market access.

We hope the Chinese and others will take note that when it comes to our enforcement efforts more generally, because we have won or successfully settled 96 percent of the cases this Administration has taken to the WTO. When it comes to defending cases brought against us, we still can boast wins or productive settlements almost half the time. We are ready and willing to settle these disputes with China in a businesslike manner if the Chinese Government wishes to do so.

When it comes to enforcement of existing trade agreements, this Administration will continue to employ the continuum of tools at our disposal to restore our rights and, if necessary, litigate, to ensure our rights are protected.

Investment

In addition to our work on FTAs and in the Doha Round, we are pushing an investment policy agenda that seeks to open markets to investment and create strong protections for investors in those markets.

Through our bilateral investment treaty (BIT) program, which USTR co-leads with the State Department, we are seeking to negotiate binding international agreements to promote and protect investment flows.

Climate/Environment

I would like to touch briefly on another emerging issue. A lot has been said in the past about trade and the environment, but today it has the potential to take on a whole new meaning – both good and bad.

It is high time we played up the important benefits trade can bring to environmental stewardship. One example I want to highlight is the proposal that we and others presented recently in advance

of the meetings on climate change in Bali. We proposed to eliminate worldwide tariff and non-tariff barriers on trade in environmental technologies and services.

In the initial stage of our proposal, we propose to use a negotiation in the NAMA segment of the Doha Round to grow trade – and presumably use – in climate-friendly technologies by an impressive 7-14 percent annually.

We have already put forward in the Doha Round an unprecedented proposal to eliminate or cut back dramatically on subsidies that result in the devastating over-fishing that threatens our oceans and the individuals whose very livelihoods depend on them.

When two dozen or so trade ministers met in Bali to discuss the nexus between trade and the environment, we also largely agreed that nations should avoid using the environment and climate change as an excuse to impose trade restrictions.

Attempting to force others to act on climate change through trade saber-rattling carries enormous risks. These threats to the global trading system cannot be ignored or glossed over.

The unilateral imposition of restrictions can lead to reprisals, and could dramatically impact economic growth and markets worldwide – while possibly accomplishing nothing, or worse, when it comes to advancing environmental objectives.

I urge those who are responsible for trade policymaking – both internationally and in our own Congress – to carefully review the implications and risks of some of the trade ideas being drawn up by those who lay claim to authority over environmental issues. We can and should be a part of laying out the roadmap on how to advance trade and environmental objectives in a mutually supportive manner.

Conclusion

Our nation is in the midst of an economic transition – exports are now playing a larger role than ever before in sustaining U.S. economic growth. Therefore, anything that encourages export growth – like approving our three pending FTAs and successfully concluding Doha – will only serve to boost our economy further.

So add it all up – the economic and commercial; the political and strategic; the shared value and shared values. It makes sense. Now is the time to act.

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