

Statement of
Robert B. Zoellick
U.S. Trade Representative
before the
Committee on Finance
of the
U.S. Senate
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Mr. Chairman, Senator Grassley, and Members of the Committee:

I would like to open by thanking each of you for the time, attention, and support that you and your staffs have given to me and my colleagues.

Last year the Committee accomplished much in a number of areas, so we are most appreciative of the energy you have devoted and the efforts made to place trade policy on America's priority agenda. Together, we have made a good start.

At the start of last year, the global trading system was under stress. The nations of the world had failed to launch new global trade negotiations in Seattle in 1999, the effort to bring China and Taiwan into the World Trade Organization had stalled, and Congress had twice failed to grant the President the trade negotiating authority that had lapsed in 1994. Numerous contentious trade disputes were piling up and the benefits of trade had been lost in the public debate. The thrust for trade liberalization had lost energy.

Against this backdrop, and with your help, President Bush pressed an activist strategy to regain momentum on trade. As he explained: "Our goal is to ignite a new era of global economic growth through a world trading system that is dramatically more open and more free." By doing so, we can improve the job opportunities, incomes, productivity, purchasing choices, and family budgets of America's workers, farmers, ranchers, small businesspersons, and entrepreneurs.

The President has promoted the agenda for trade liberalization on multiple fronts: globally, regionally, and with individual nations. This strategy creates a competition in liberalization with the United States as the central driving force. It enhances America's leadership by strengthening our economic ties, leverage, promotion of fresh approaches, and influence around the world.

I am particularly pleased to see that we have accomplished the five goals Chairman Baucus set out at my confirmation hearing last year: (1) pass the U.S.-Jordan Free Trade Agreement; (2) enact the U.S.-Vietnam Bilateral Trade Agreement; (3) offer a bill for Trade Promotion Authority that could receive wide support, as the Chairman and Senator Grassley demonstrated by leading an 18 to 3 vote in the Committee; (4) address the challenges facing the U.S. steel industry, as we are doing through our initiation of a Section 201 safeguard action and a complementary international agenda; and (5) assess and monitor enforcement capabilities, especially with reference to China's

accession to the WTO.

Seizing the Global Initiative

A. Launching New Global Trade Negotiations

In 2001, the United States played a leading role in the launch of new global trade negotiations at Doha in November, overcoming the obstacles that plagued the prior effort in Seattle. We benefited greatly from the consultations and guidance we received in advance of the Doha meeting. I also appreciated Chairman Baucus' and Senator Grassley's extra effort to arrange an opportunity for me to brief Senators and staff right after we returned.

The new WTO negotiating mandate lays the groundwork for an ambitious trade liberalization agenda in key sectors, especially agriculture, manufacturing, and services, targeted to be completed by 2005.

In agriculture, to achieve a program of fundamental reform, we committed to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.

In manufacturing, we secured a negotiating mandate to reduce or eliminate tariff and non-tariff barriers on industrial products, ensuring that the United States can pursue a variety of tariff liberalization initiatives, such as landmark agreements like the Information Technology Agreement (ITA). The mandate is comprehensive – no sectors or products are excluded from the outset for any WTO Member.

And in services, the Doha Declaration sets a rigorous timetable for the pursuit of open markets in a number of key sectors for the United States, including telecommunications, financial services, audio-visual, express delivery, and other distribution services.

Many U.S. groups assisted us in the preparation of these negotiating mandates, and we are delighted by their strong statements of support after Doha. They have emphasized the interconnection of this work with economic recovery in America and around the globe.

At Doha, we also made significant progress in a number of other areas, some of which I will discuss later in this statement:

- WTO members adopted a political declaration that highlights provisions in the TRIPs agreement that provide Members with the flexibility to address public health emergencies, such as epidemics of HIV/AIDS, tuberculosis and malaria.
- The Doha Declaration includes a mandate to launch negotiations aimed at eliminating environmentally harmful fish subsidies and increasing market access for environmental

goods and services. The agreement also includes an important new mandate to enhance the mutual supportiveness of multilateral environmental agreements (MEAs) and the

WTO rules by strengthening the relationship between the two, institutionally and substantively.

- In the area of e-commerce, the declaration ensures that the WTO will remain active in this important and dynamic area through the continuation of its work program, while extending the ongoing moratorium on imposing customs duties on electronic transmissions. This work program will provide an opportunity for the United States to continue its efforts to press other countries to avoid unnecessary measures that would impede the growth of e-commerce.
- The review of WTO rules explicitly states that any negotiation of trade remedy laws will preserve the basic concepts, principles, and effectiveness of existing agreements, as well as their instruments and objectives, enabling us to pursue an offensive agenda against the increasing use of these laws against U.S. exporters while also addressing the underlying trade-distorting practices.
- The declaration includes an agreement providing for enhanced transparency in WTO Member government procurement procedures. This program should lead to improved disciplines in government purchases, making an important contribution to combating corruption.
- The declaration states a commitment to enhance cooperation between the WTO and the International Labor Organization.

To help maintain the momentum after the Doha agreement, the WTO economies agreed that Mexico will chair the WTO ministerial in 2003. As the incoming chair, Mexico can assist in promoting the pace of the new negotiations.

One of the important WTO entities in the months ahead will be the Trade Negotiations Committee. That committee took a number of useful steps at its meeting on February 1. It appointed the WTO Director-General to chair the committee's work (in an ex-officio capacity) until the January 2005 deadline set for the completion of the negotiations. This guarantees the committee will receive the necessary attention at the WTO's highest level. And the TNC adopted a structure for the negotiations that will help the negotiating process move forward in an orderly fashion.

In 2002, we will press forward with these negotiations, advancing new and detailed proposals to open further the world's agriculture, services, and manufacturing markets. We will also be advancing our affirmative agenda for reforming WTO trade rules and the dispute settlement system, and building on the opportunities presented by the new environmental negotiating

mandate.

The United States will place special emphasis on our continued effort to insure the involvement of least developed nations, in order to assist them secure the benefits of trade and to keep all WTO members invested in the process. We will work with the WTO and others to provide the tools and training needed to help these nations participate more actively in the global trading system. In particular, developed nations, multilateral development banks, and other international institutions – such as UNCTAD and the World Intellectual Property Organization – should supply technical assistance to build the capacity of poorer countries to engage effectively in negotiations and the subsequent implementation of trade agreements. By providing such support, we will be helping these nations to integrate with the global economy – a key part of the strategy for economic development – while also strengthening the rules-based trading system.

B. Completing the Accession of China and Taiwan to the WTO

Last year, the United States also played a key role in breaking through logjams to complete the historic accessions of China (after a 15-year effort) and Taiwan (after a 9-year effort) to the WTO. This achievement built on the work of four U.S. Administrations, particularly that of Charlene Barshefsky, from whom I inherited an excellent bilateral agreement. Throughout 2001, we solved the multilateral dimension concerning agriculture, trading rights, distribution, and insurance, while navigating the extreme political sensitivities to enable China and Taiwan to join the WTO within 24 hours of one another.

These agreements integrate two of the world's largest economies into the rules of the WTO trading system and provide U.S. exporters with expanded access in growing markets ranging from automobiles and telecommunications to agriculture and chemicals. As a result, the President certified the requirements set by Congress through the leadership of Chairman Baucus and Senator Grassley and this Committee in the passage of the legislation extending Permanent Normal Trade Relations to China.

In 2002, the Bush Administration will work closely with other countries, as well as a private sector network we are interconnecting, to monitor China's and Taiwan's compliance. The backing we have received from the Congress – in terms of resources and attention – has been and will remain fundamental to the achievement of our mission. We will work with our businesses and with China and Taiwan to address problems and take action if necessary.

C. Advancing Russia's Accession to the WTO

The United States has begun a new era in its relations with Russia. Whether in the realms of security, foreign policy, or economics, President Bush has emphasized the need to move beyond Cold War strictures and stereotypes. As the President said in November during his meeting with President Putin, “we’re working together to break the old ties, to establish a new spirit of cooperation and trust so that we can work together to make the world more peaceful.”

To contribute to this vision for the 21st century, in 2002 we will continue our intensified effort to assist Russia's preparations to join the WTO. President Putin has made WTO membership and integration into the global trading system a top priority; we will support Russia as it promotes reforms, establishes the rule of law in the economy, and adheres to WTO commitments for a more open economy. This effort needs to include action by the Duma to establish an effective legal infrastructure for a market economy.

It is our expectation that the WTO will prepare a first draft Working Party report on Russia's accession in the first quarter of this year. We will work with Minister Gref – in cooperation with the EU and our other WTO counterparts – to address the gaps. Throughout this process, we look forward to consulting closely with the Congress and this Committee in particular.

To close out the history books of the Cold War, the President has urged the Congress to finally end the application of Jackson-Vanik to Russia. It has been over a decade since I worked on the unification of Germany with a fading Soviet Union that expired in 1991. Furthermore, Russia has been in full compliance with Jackson-Vanik's emigration provisions since 1994. My colleagues at the State Department and the NSC are, of course, consulting closely with various groups on the protection of freedom of religion and other human rights in conjunction with this action.

I understand that the first inclination of some might be to keep the Jackson-Vanik law in reserve as we negotiate Russia's accession to the WTO. I think this course would be a mistake, and would work against U.S. commercial and foreign policy interests. The Russians acknowledge they must abide by the WTO's rules, and we and 143 other economies will insist on that course as their WTO negotiations proceed. Yet the Russians are understandably sensitive about Jackson-Vanik, which places their trade relations with us in a different category. To use Jackson-Vanik in this way would signal that we still treat Russia as a former foe, not a possible friend. Working closely with the Congress, we will stress the need for Russia to offer fair market access – for example in agriculture – but we should do so according to the rules to which we maintain Russia should adhere. Congress exercises substantial oversight in these negotiations through existing consultation provisions.

Pressing the Regional Initiative: The Free Trade Area of the Americas

In April 2001, at the Quebec City Summit, the President inaugurated a reinvigorated push for free trade throughout the Americas. A number of Members of the Committee joined him to express their support and represent important perspectives.

At Quebec City, the leaders of 34 democracies of the Western Hemisphere agreed to proceed with detailed draft negotiating texts and to complete work no later than January 2005. Once implemented, the FTAA will be the largest free trade zone in the world.

The United States and its FTAA partners are working committedly toward this goal. By mid-May 2002, we will launch market-access negotiations on agriculture, industrial goods, services,

investment, and government procurement. In October, trade ministers will meet in Quito to review the revised negotiating texts and to determine how to move forward. Upon the close of the Quito meeting, the United States and Brazil will begin a co-chairmanship of the FTAA process, providing an opportunity for cooperation with a key partner and economic power as the pace of negotiations accelerates.

Throughout the year ahead, we will also persist in our efforts to make the public case for NAFTA's benefits and consider additional ways to deepen integration throughout the Americas. NAFTA has been a case study in globalization, along a 2,000-mile border, by demonstrating how free trade between developed and developing countries can boost prosperity, economic stability, productive integration, the development of civil society, and even democracy.

Moving Forward: Bilateral Free Trade Agreements

In 2001, the Congress approved the U.S.-Jordan Free Trade Agreement with broad support, establishing America's third free trade zone, and our first with an Arab country. The Congress also passed the Bilateral Trade Agreement with Vietnam, achieving a principal goal of America's decade-long agenda to normalize relations with our former foe. Many of you played key roles in the development of these agreements and then shepherded the final packages successfully. I appreciate, in particular, Senator Kerry's support and encouragement of new trade ties with Vietnam.

In 2002, we intend to complete free trade agreements with Chile and Singapore. Each of these agreements offer new opportunities for U.S. businesses and workers and will send a message to the world that the United States will press ahead with those that are committed to open markets – whether in the Western Hemisphere, across the Pacific, or beyond the Atlantic. As we move these FTA negotiations toward completion in the months ahead, we want to work closely with this Committee so we can try our best to address your concerns and interests.

In 2002, working with the Congress, we also hope to initiate talks on new bilateral free trade agreements. These agreements can open up a new front for free trade. They can create models of success that help reformers, break new ground for liberalization in changing or emerging sectors (e.g. biotech, high tech – including IPR-related sectors – and services), build friendly coalitions to promote trade objectives in other contexts (e.g. biotech, SPS topics), add to America's trade leverage globally, underpin links with other nations, and energize and expand the support for trade. New trade agreements also present fresh opportunities to find common ground at home, and with our trading partners, on the nexus among trade, growth, and improved environmental and working conditions.

Our aim is to achieve free trade agreements with a mix of developed and developing nations in all regions of the world. As the President announced in January, and as Congress urged in the Caribbean Basin Trade Partnership Act, we want to explore a free trade agreement with the countries of Central America. Many Members of Congress have written me to express strong

support for an FTA with Australia. I met with Australian Trade Minister Mark Vaile last week to discuss how best to move forward towards this goal, recognizing the need in particular to work on agricultural issues. The Africa Growth and Opportunity Act (AGOA) also urges us to advance the negotiations of FTAs with sub-Saharan Africa.

We are weighing these and other possibilities to extend free trade. We look forward to discussing these matters with the Committee and would benefit from your thoughts on these or other possible FTAs. It is our hope that we could use such an agenda to try to achieve the goals in the bills passed by the House and the Finance Committee.

The Executive-Congressional Partnership: Trade Promotion Authority, the Andean Trade Preference Act, and the Generalized System of Preferences

The Constitution vests the Congress with the authority “To regulate Commerce with foreign Nations.” It also extends the powers to the President to conduct relations with other countries. These two grants need to be reconciled effectively.

After 150 years of contentious Congressional trade debates over tariffs, culminating in the disastrous experience of the Smoot-Hawley bill, the Congress tried a different approach in 1934: The Reciprocal Trade Agreements Act, which created a new partnership between the Congress and the Executive branch to lower barriers to trade.

This partnership has been the foundation of America’s economic and trade leadership ever since. In 2001, the Bush Administration honored this rich tradition by working hand-in-hand with the Congress to open markets; we will build on this relationship in the year ahead. Frequent, substantive consultation is the hallmark of an effective trade policy. It helps to ensure that the Executive branch and the Congress work together to achieve America’s trade objectives.

A Congressional grant of Trade Promotion Authority would strengthen and guide the Executive-Congressional partnership, as it creates and formalizes new consultative mechanisms throughout the trade negotiation process. In 2001, we are grateful that the House of Representatives passed Trade Promotion Authority legislation and that the Senate Finance Committee gave a strong bipartisan endorsement to a similar bill, 18-3. I would like to thank Chairman Baucus and Senator Grassley in particular for their leadership in promoting Committee action shortly after the successful House vote.

We are pressing to open 2002 with the prompt completion of Congressional action on TPA. We are pleased Majority Leader Daschle has pledged early action. By enacting TPA after a seven-year lapse of authority, Congress can promote America's global leadership and give the President the tool he needs to strike the best trade agreements for America's farmers, workers, families, and consumers. The revival of this trade authority – which prior Congresses granted to the previous five Presidents – will also contribute to our economic recovery by enhancing our ability to open the world's markets for U.S. exports and lowering the costs of supplies for American families and

businesses.

For all the benefits of trade, I recognize that trade can also lead to adjustment challenges. For this reason, the Bush Administration strongly supports reauthorization of Trade Adjustment Assistance (TAA) programs, which provide assistance for workers who lose their jobs because of trade. The Administration wants to work with Congress to improve the programs to make them more effective.

In particular, the Administration would like to consolidate TAA and NAFTA-TAA; ensure more rapid processing of petitions and delivery of services; and better coordinate federal agencies and local authorities to improve delivery of all federal assistance to communities and individuals affected by trade. Our primary objective is getting people back in jobs as quickly as possible, so we would like to work with Congress to create better incentives for reemployment. We also want to address concerns over limitations on the “shift-in-production” benefits provided by current programs. And we would like to work with Congress to address other areas that may not be adequately addressed at present.

We also urge the Congress to reauthorize and expand the Andean Trade Preference Act – a vital program for the four Andean developing country democracies on the front lines of the fight against narcotics production and trafficking. ATPA was enacted in 1991, and its expiration after ten years has caused real hardship for friendly countries with little margin to spare.

Finally, we respectfully hope to press the Congress to reauthorize the expired Generalized System of Preferences, a 26-year old U.S. program to promote economic growth in 123 developing nations and 19 territories by providing duty-free treatment for certain exports to the United States. The expiration of GSP access on September 30 – shortly after September 11 – raises anxieties around the developing world that the United States is ignoring the conditions that can become breeding grounds for those whose purpose is destruction, not construction and production.

Working with Developing Nations

A free and open trading system is critical for the developing world. As President Bush has pointed out, “Open trade fuels the engines of economic growth that creates new jobs and new income. It applies the power of markets to the needs of the poor. It spurs the process of economic and legal reform. It helps dismantle protectionist bureaucracies that stifle incentive and invite corruption. And open trade reinforces the habits of liberty that sustain democracy over the long term.”

Last year, we began the important implementation of the far-sighted African Growth and Opportunity Act, which Congress enacted in May 2000. As you know, AGOA extends duty-free and quota-free access to the U.S. market for nearly all goods produced in the 35 eligible beneficiary nations of sub-Saharan Africa. In 2001, the United States lifted all duties on eligible apparel products exported from 12 AGOA nations to the United States. The Administration is

fully committed to AGOA's use and expansion: It opens the door for African nations to enter the trading system effectively, increases opportunities for U.S. exports and businesses, supports government reforms and transparency, and widens the recognition of the benefits of trade in the United States. Indeed, we support prompt Congressional action on legislation that will clarify and strengthen current provisions in the African Growth and Opportunity Act. Next week, I am traveling to Kenya, South Africa, and Botswana to listen and learn more about Africa's needs, while conveying America's support for Africa's economic and political reforms and our interest in greater trade.

Through AGOA and other preferential trading ties, such as the Caribbean Basin Trade Partnership Act, we will support efforts to build the capacity of developing countries to take part in trade negotiations, implement complex trade agreements, and use trade as an engine of economic growth. The United States devoted more than \$555 million in trade-related capacity-building assistance to developing countries during fiscal 2001 – more than any other single country. We will continue to work with other agencies of the U.S. government, such as AID, and with multilateral and regional institutions, such as the World Bank, the Inter-American Development Bank, the African Development Bank, and the WTO to help developing nations to board the ship of trade so as to reach the shore of prosperity, opportunity, jobs, better health, the rule of law, and political reform. Congress' advice, encouragement, and support is vital to this endeavor.

Monitoring and Enforcing Trade Agreements

For the United States to maintain an effective trade policy and an open international trading system, our citizens must have confidence that trade is fair and works for the good of our people. That means ensuring that other countries live up to their obligations under the trade agreements they sign. Over the past year, we have aggressively monitored and enforced our agreements, reaching settlements benefiting American producers, exporters, and consumers in sectors such as entertainment (motion picture and television programming), high-technology (software and telecommunications) and agriculture (bananas, soybeans, lamb, rice, livestock, dried beans, stone fruit, fresh fruits and vegetables, processed foods, citrus, stuffed molasses, and wheat gluten).

In 2002, we will seek to resolve favorably other trade disputes in a way that best serves America's interests. Among the most prominent cases are: softwood lumber with Canada; beef with the European Union; the Foreign Sales Corporation WTO case brought by the EU; and sweeteners with Mexico. To avoid large trade retaliation against U.S. exporters and the risks of spiraling conflict, we and other departments will need in particular to consult and work with the Congress closely to determine an approach to the recent FSC decision.

We plan a special effort around the world to address technology regulations (e.g., biotech) and science and health measures that impede farm exports and the productive development of agriculture.

Trade Laws Against Unfair Practices

Given America's relative openness, we can only maintain domestic support for trade if we retain strong, effective laws against unfair practices. This Administration has used and backed the use of these laws.

In Doha, working closely with the Commerce Department, we stressed and pressed this point vigorously. We then advanced an offensive agenda in this area. We targeted the increasing misuse of these laws, particularly by developing countries, to block U.S. exports. During 1995-2000, there were 81 investigations by 17 countries of U.S. exporters. Chemical, steel, and other metal producers are the most frequently targeted U.S. industries, although U.S. farm products are increasingly the victims. At present, there are over 60 orders against American companies in effect. The new negotiations launched at Doha will help us address significant shortcomings in foreign anti-dumping and countervailing duty procedures by improving transparency and due process.

Finally, the Doha Declaration makes clear that trade remedy laws are essential tools and should not be undermined. We won agreement that the new negotiations will preserve the concepts, principles, and effectiveness of the international provisions on which we rely, as well as the instruments we use. Moreover, the United States insisted that any discussion of trade remedy laws must also address the underlying subsidy and dumping practices that give rise to the need for trade remedies in the first place.

The Importance of Safeguards

Maintaining public support for open trade means providing assistance to those industries that find it difficult to adjust promptly to the rapid changes unleashed by technology, trade, and other forces. We will continue our commitment to the effective and creative use of statutory safeguards, consistent with WTO rules, to assist American producers. Used properly, these safeguards – for example, Section 201 of the Trade Act of 1974 – can give producers a vital breathing space while they restructure and regain competitiveness.

The Bush Administration has pursued innovative approaches with safeguards. For example, while ending the safeguards for the U.S. wheat gluten and lamb industries last year, we also provided them with additional financial assistance over a period of 2-3 years. The effect has been to assist them in following through on their transitions to competitiveness, while also helping to insulate our exporters from trade retaliation. The European Union agreed to lift its duties on U.S. corn gluten imports as part of our action on wheat gluten.

In June, the Administration requested a safeguards investigation by the U.S. International Trade Commission into whether increased imports were causing serious injury to the U.S. steel industry. Many of you urged this and the prior Administration to take this step, and we were pleased to work with you to do so after your unsuccessful efforts in the 1990s. The President's request was one part of a larger U.S. global steel initiative that also included the launch of new negotiations

with our trading partners to eliminate inefficient excess capacity in the world's steel industry and to enhance international discipline over subsidies and other measures that distort markets.

On December 19, the International Trade Commission issued a report containing its recommendations. A plurality of the commissioners recommended various remedies for many of the steel product categories. The Administration has been reviewing the ITC's recommendations, as well as the views of a diverse collection of steel companies, labor unions, steel consumers, port authorities, and exporters. We recently received supplementary information from the ITC pursuant to a request I made last month on behalf of the Administration. We of course welcome further input from this Committee and the Congress. Based on this information, I expect the President will decide on a course of action in coming weeks.

Aligning Trade with America's Values

America's trade agenda needs to be aligned securely with the values of our society. Trade promotes freedom by supporting the development of the private sector, encouraging the rule of law, spurring economic liberty, and increasing freedom of choice.

The trade system also needs to be alert to other challenges. Poor countries cannot succeed with economic reform and growth if they are eviscerated by pandemics. From its first days, this Administration recognized this economic, health, and social reality. We stressed that the international WTO Agreement on intellectual property (the TRIPs accord) contains flexibilities for developing nations to obtain access to critical medicines to help address public health emergencies, such as HIV/AIDS, tuberculosis, and malaria. The Administration played a key coalition-building role – working closely with African nations and Brazil, as well as with the pharmaceutical companies – to develop a special political declaration at Doha that highlights these flexibilities.

Flexibility on intellectual property, and lower-priced medicines, must be part of a larger global response to health pandemics, involving education, prevention, care, training, and treatment. The United States is the largest bilateral donor of funds for HIV/AIDS, tuberculosis, and malaria assistance, providing over \$1 billion per year on related research, much of which helps to address developing country problems. (This represents nearly 50 percent of all international HIV/AIDS funding.) The United States was the first contributor, and remains the largest, at \$500 million, toward the international "Global Fund to Fight AIDS, TB and Malaria," which will allocate its first grants in April.

We are also stressing that it would be a tragedy and health setback if the promotion of the flexibilities within the TRIPs accord degraded into an assault on intellectual property. Effective protection of intellectual property is critical for developing nations, because we need to find and develop cures for diseases that ravage their societies. Similarly, biotechnology holds out tremendous potential for the developing world: It can increase food security and food production

through higher yields and the reduction of fertilizer and insecticide inputs. New discoveries will add vitamins to foods, and counter malnutrition and disease. Furthermore, the local protection of intellectual property rights establishes the foundation for an attractive investment climate for industries of the future. Indeed, as developing countries have implemented the intellectual property protections in TRIPs, they have begun to benefit from increased technology transfer and investment – two key factors in long-term economic growth.

There are other areas where we are working to ensure our trade policies are supportive of related meritorious purposes. USTR has worked closely with Members of Congress on legislation that would support international efforts to stop trade in “conflict diamonds” (diamonds traded by rebel movements to finance conflict aimed at undermining elected governments). The bill approved by the U.S. House of Representatives in late November achieves this objective consistent with our international obligations. We will continue to work with other agencies and the Senate sponsors of the legislation to resolve any remaining issues and to help bring the

Kimberley Process (the international negotiations aimed at preventing trade in conflict diamonds) to a successful conclusion.

A Cleaner Environment and Better Working Conditions

Free trade promotes free markets, economic growth, and higher incomes. And as countries grow wealthier their citizens demand higher labor and environmental standards. Furthermore, governments have more resources and incentives to promote and enforce such standards.

In 2001, we charted progress on incorporating labor and environmental concerns into U.S. trade policy. The U.S.-Jordan Free Trade Agreement is the first U.S. free trade accord to include enforceable environmental and labor obligations in the body of the agreement. The Administration also affirmed an executive order, and its implementing guidelines, for conducting environmental reviews of trade agreements. As part of this policy, USTR is conducting environmental reviews of the U.S.-Chile and U.S.-Singapore free trade agreements, the Free Trade Area of the Americas, and the WTO’s new negotiating agenda.

The House and Senate Trade Promotion Authority bills contain provisions that will incorporate labor and environmental concerns into U.S. trade negotiations. We are drawing on this guidance – and would welcome additional insights – as we are pursuing these topics in our current FTA negotiations. Similarly, I am conducting discussions with NGOs and the business community to ascertain how we can address concerns posed about investment provisions involving private action. Working with our NAFTA partners last July, we issued additional binding interpretations for NAFTA panels that define more precisely the bases for their reviews.

As I noted earlier, the United States played a leading role in forging the compromise to incorporate environmental concerns into the new global trade negotiations. I have already discussed with numerous countries the critical importance of proceeding creatively and positively

on this Doha agenda, because I believe it offers significant opportunities. We can take practical steps that show that good environmental policies and sound economics can be mutually supportive. In addition, we should create a healthy “network” between multilateral environmental agreements (MEAs) and the WTO, enhancing institutional cooperation and fostering compatible, supportive regimes. If we succeed, this precedent may be helpful in interconnecting the WTO with other specialized organizations, such as the ILO on labor policies and the WHO on health issues.

The Bush Administration has a sound track record of using our trade preference programs, and our trade negotiations, to improve working conditions in the context of trade liberalization. In May, the Guatemalan Congress enacted a significant package of reforms to the country’s labor law following a U.S. review of the country’s labor practices conducted under the Generalized System of Preferences program. In December, the United States and Cambodia extended our Bilateral Textile Agreement, including an increase in the quota for textile exports from Cambodia in recognition of Cambodia’s progress in reforming labor conditions in factories over the past three years. And in our negotiations for free trade agreements with Chile and Singapore, in accordance with the objectives in the TPA legislation, we will seek a meaningful set of cooperative provisions that will advance labor and environmental protection and projects, while promoting open markets.

We know the importance of these topics for many members of the Committee, and we want to work with you to explore new approaches that break through old stereotypes. Some are concerned about a “race to the bottom,” although others point to the benefits of trade and openness in spurring growth, productivity, higher incomes, and enhanced scrutiny of working and environmental conditions. Some stress the need to safeguard America’s sovereign rights to select our own standards, while others want to deploy trade agreements to compel others to negotiate the standards we prefer. Some believe that the influence and investment of U.S. companies abroad will lead to higher standards and codes of behavior, while others fear the reach of globalized companies. It is our goal to use the TPA bills Congress has forged to bridge the differences, build a stronger consensus, and make a real, positive difference around the world.

Conclusion: Challenges on the Trade Horizon

The United States has made considerable progress on the trade agenda in the past year, but still must do more to catch up with our trading partners. The European Union now has 29 regional and bilateral free trade or special customs agreements, 22 of which it negotiated in the past decade, and is in the process of negotiating with 12 more countries. Mexico sped past the United States after NAFTA to complete eight free trade agreements with 28 countries. Japan has completed a free trade agreement with Singapore and is exploring options with the ASEAN nations, Canada, Mexico, Korea, and Chile. Even China, just into the WTO, is pursuing an FTA with the ASEAN countries.

Altogether, there are 130 regional free trade and customs agreements in the world; the United States is a party to only three. There are 30 free trade agreements in the Western Hemisphere; the

United States is a party to only one. In recent years, when the rules of trade have been set, the United States has frequently not been at the negotiating table.

In addition, there is a constant threat of markets closing and barriers rising. During periods of economic downturn and uncertainty, it is most important to affirm the drive toward free trade. In the past, governments have often resorted to protectionism in short-sighted attempts to shield their local industries from competition. In the face of these challenges, we must be even more vigilant in order to move ahead.

Opening markets, and liberalizing commerce, injects fresh dynamism and energy into the U.S. economy. Open trade cuts taxes on businesses and consumers. For example, NAFTA and the Uruguay Round agreements have resulted in higher incomes and lower prices for goods, with benefits amounting to \$1,300 to \$2,000 a year for the average American family of four.

There is even more to be gained. A University of Michigan study has reported that new global trade negotiations focused on tariff reductions on industrial and agricultural products could deliver an annual benefit of nearly \$2,500 for American families.

We will continue to make this case for the benefits of trade. Expanded trade – imports as well as exports – improves our well being: Exports accounted for 25 percent of U.S. economic growth from 1990-2000 and support an estimated 12 million jobs; these jobs are estimated to pay 13 to 18 percent more than other jobs. Trade also promotes more competitive businesses – as well as more choices of goods and inputs, with lower prices.

A free and open trading system is critical to a number of sectors of the U.S. economy. In U.S. agriculture, for example, one in three acres are planted for export and nearly 25 percent of gross cash sales are generated by exports. The value of U.S. exports of agricultural products is expected to be \$54.5 billion this year. U.S. farmers and ranchers are 2 ½ times more reliant on trade than the rest of the economy.

Last year, the Administration and the Congress together restored America's trade policy leadership all around the globe. There is no doubt the United States is back at the free trade table. In the year ahead, the Bush Administration will work in close consultation with the Congress to build on this leadership through the ongoing implementation of an activist agenda that seeks to vanquish the barriers to free trade and magnify the opportunities for growth and prosperity. By opening new markets, together we will be contributing to the enhancement of democracy, liberty, security, innovation, political coalitions, economic growth, and openness in the United States and throughout the world.