



U.S. Trade Update and Agenda

Senate Finance Committee Hearing

Presentation of United States Trade Representative
Ambassador Susan C. Schwab

February 15, 2007

U.S. Economy is Strong

- **Strong Growth:** U.S. Real GDP grew at 3.4% in 2006 – faster than the EU and Japan
- **Creating Jobs:** 2 million jobs created over last 12 months and 7.4 million created since August 2003; unemployment low at 4.6%; over ten years almost 2/3 (63%) of all job creation by the G-7 countries occurred in the U.S.
- **Rising wages:** Real compensation in the U.S. has risen by 8% since 2001; real consumer spending has risen over 17% in the last five years (adjusted for inflation)
- **Strong Manufacturing:** Real U.S. manufacturing output from 1995-2005 grew by 39% - slightly faster than overall U.S. GDP growth at 37.6%
- **Changing Workforce:** Productivity increases, technological change, and global competition can lead to increased opportunity for many workers and potential short-term worker dislocation for others; the President has called for reauthorization and improvement of Trade Adjustment Assistance to help the fewer than 3% of workers who may have been laid off due to import competition or overseas relocation

Trade is Spurring Economic Growth

- **Export-Driven Growth in 2006:** Nominal U.S. goods and services exports grew by nearly 13% last year; U.S. imports grew by 10.5%; 90% of the trade deficit increase resulted from higher prices for petroleum imports (Department of Commerce)
- **Expanding Trade:** On an inflation-adjusted basis, exports in the GDP accounts show substantially faster growth of U.S. exports (8.9%) than for U.S. imports (5.8%) (Department of Commerce)
 - Exports accounted for over a quarter (28%) of real GDP growth in 2006
 - In the 4th Quarter 2006, U.S. trade accounted for almost 50% of GDP growth
- **Offsetting Housing Downturn:** At over \$1.4 trillion, U.S. exports were twice the size of the new housing market in the United States in 2006; U.S. exports more than offset the housing decline, with export growth adding \$1.44 to U.S. GDP for every \$1.00 of GDP growth lost to declines in new home construction (Department of Commerce)
- **Better Paying Jobs:** Jobs supported by goods exports pay an estimated 13% to 18% more than the U.S. national average (various studies)
- **Trade Benefits All Americans:** Post World War II trade liberalization has raised annual incomes by \$1 trillion, or \$9,000 per American household; elimination of remaining global barriers would add another \$500 billion to annual income or \$4,500 per U.S. household (Institute for International Economics) 3

2007 TRADE AGENDA

- 1) Doha Round Negotiations**
- 2) Trade Promotion Authority**
- 3) Trade Agreements**
- 4) Enforcement and Dispute Resolution**

Benefits of a Doha Deal

U.S. Economy and Global Economic Leadership

- 95% of world's customers are abroad; a Doha deal will generate trade liberalization among the WTO's 150 Members, opening more markets for more American goods and services exports
- Uruguay Round and NAFTA agreements raised the income of an average U.S. family of four by an estimated annual \$1,300 to \$2,000 (USTR)
- If Doha were to achieve even a one-third cut in global barriers to trade in goods and services, the real income gain to a U.S. family of four could be around \$2,500 annually (University of Michigan)
- The United States leads the multilateral trading system's promotion of rule of law, transparency, predictability and democratic values

Global Development

- Outside the United States, the elimination of global trade barriers could lift 66 million of the world's poor out of poverty (World Bank)
- Raising Africa's share from 2% to 3% of world trade would provide export revenues of \$70 billion, nearly three times the amount that sub-Saharan Africa receives from global aid donors (Blair Commission on Africa)

Need Trade Promotion Authority to Implement Doha

Doha State of Play

July 2006

- Impasse leads to formal suspension of negotiations

July through December 2006

- U.S.-led push to revive negotiations
- Drilling down below “headline” numbers to explore specific sensitivities and priorities

January/February 2007

- Endorsement of bottom-up approach at Davos Ministerial gathering
- Intensification of informal bilateral engagement with key partners
- Some progress, but much work still required for breakthrough

Doha State of Play

Agriculture

- United States is the world's largest exporting country of agricultural products, with a 9.7% share of world exports in 2005 (WTO)
- One out of three acres are planted for export; given high agriculture trade barriers abroad, U.S. agricultural exports are a big potential winner from successful Doha negotiations
- **Market Access:** Agreement must deliver new export opportunities for U.S. agricultural producers and generate meaningful new trade flows
- **Exceptions:** Assure market access not negated by loopholes
 - Scope of “Sensitive Products” for developed countries
 - Scope of “Special Products” for developing countries
 - Scope of “Special Safeguard Mechanisms”
- **Export Subsidies:** Complete elimination as part of final agreement
- **Trade-distorting Domestic Support:** Reform and reduce most trade-distorting subsidies

Doha State of Play

Manufactured Goods (NAMA)

- Manufactured goods represent 62% of total U.S. goods and services exports; manufactured goods exports have increased by 107% since 1995 when the Uruguay Round went into effect; the United States exported \$891 billion of manufactured goods in 2006 (Department of Commerce)
- Seeking real cuts in tariffs and non-tariff barriers to generate meaningful trade flows in both developed and advanced developing markets; elimination of tariffs in key sectors (e.g., chemicals, electronics/electrical products, health care products, environmental products and forest products)

Services

- U.S. exports of services have doubled over the past 12 years (up 107%); generated \$72 billion surplus in 2006 on exports of \$414 billion (Department of Commerce)
- Expanded market access in key services sectors (e.g., financial, telecommunications, computer, express delivery, energy, distribution, and environmental services)

Other Key Issues Under Negotiations:

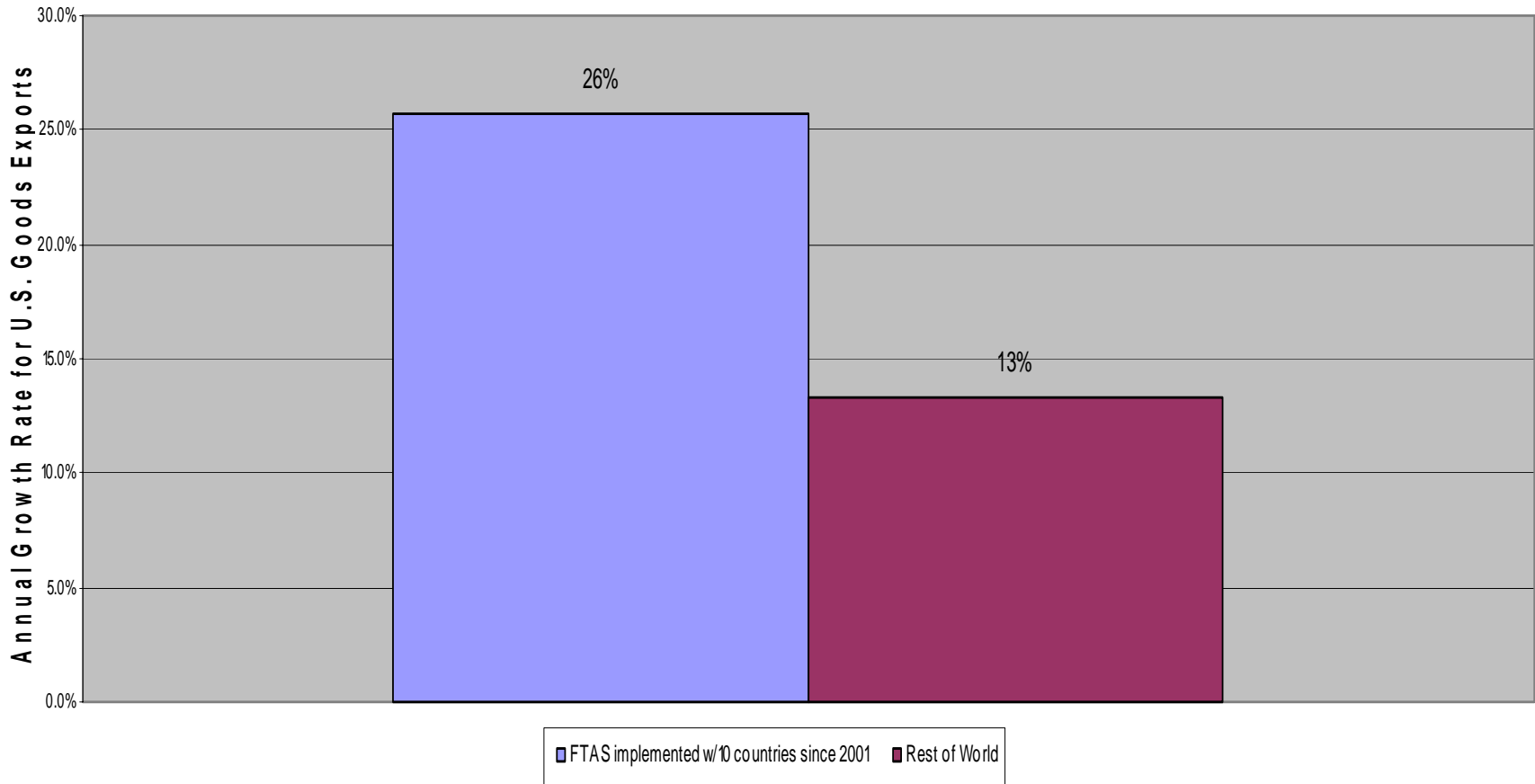
Trade Remedies (Rules), Subsidies Causing Over-fishing, Trade Facilitation, and Development Issues

Trade Promotion Authority

- All Presidents since 1974 have used authority to help open markets for American workers, farmers, ranchers and service providers
- Need TPA to implement Doha
- Need TPA to negotiate regional and bilateral agreements to open markets for U.S. exporters, to level the playing field, and to keep pace with U.S. competitors
- Few countries will negotiate seriously with the U.S. without TPA; should TPA lapse, the U.S. will be excluded from future regional and bilateral trade agreements – harming U.S. exporters and threatening U.S. economic growth
- To help U.S. companies and workers succeed globally, the U.S. government must be on the field
- The Administration has used TPA to increase U.S. exports and to level the playing field and will continue to do so

U.S. FTAs = Expanded Exports

U.S. Exports to 10 recent FTA Partners* Grow Twice as Fast



The 13 FTA countries with agreements currently in force account for 7.2% of global GDP, excluding the U.S., but account for 42% of U.S. exports to the world

* Jordan, Chile, Singapore, Australia, Morocco, El Salvador, Nicaragua, Honduras, Guatemala, and Bahrain

U.S. FTAs = Expanded Exports

U.S. Export Growth with FTA Partners (since entry into force)

		<u>Date of Entry</u>
Israel	325%	(1985)
Canada	222%	(1989)
Mexico	223%	(1994)
Jordan	92%	(2001)
Chile	150%	(2004)
Singapore	49%	(2004)
Australia	25%	(2005)
Morocco	67%	(2006)
CAFTA-DR*	18%	(2006)
Bahrain	40%	(2006)

* Includes 4 countries in force: El Salvador, Nicaragua, Honduras, Guatemala

Free Trade Agreements

Ongoing Negotiations within Current TPA:

- **Korea** – Seventh largest trading partner – two-way goods and services trade valued at \$98 billion (2006)
- **Malaysia** – Tenth largest goods trading partner with two-way trade in goods amounting to \$49 billion (2006)

Timeline under Current TPA:

- Notify Congress of intent to sign by April 1
- Sign agreement by June 30

Agreements Pending Enactment

➤ Peru and Colombia – Leveling the Playing Field

- Agreements will eliminate tariffs and unfair barriers to U.S. exports, opening a combined market of almost 72 million consumers and a combined GDP of almost \$550 billion (purchasing power parity basis)
- U.S. farm exports to Peru and Colombia will increase by an estimated \$1.5 billion per year after full implementation of these FTAs, with gains spread among all sectors of U.S. agriculture (American Farm Bureau)
- Over 80% of U.S. exports of industrial and consumer products to Peru and Colombia will become duty-free immediately upon entry into force of the agreements, with the remaining tariffs eliminated within 10 years

➤ Panama

- Agreement would open opportunities to participate in the \$5.25 billion expansion plan for the Panama Canal

Enforcement – A Record of Success

- **Employ all tools needed for aggressive enforcement**
- **Litigation the tip of the iceberg**
- **Use litigation where most effective:** Airbus (largest WTO case ever filed), China Auto Parts, China Subsidies
- **Less litigation by all Members at WTO since 1998 as backlog drawn down and rules clarified:**
 - 50 cases in 1997 → 21 cases in 2006
 - More cases brought by developing countries
 - U.S. and EU brought comparable number of cases each year since 1995
- **Won 88% of WTO cases brought** (at a consistent rate since 1995)
SCS: NOTE: Clinton was 85% and for Bush 91.7%
- **Won About 55% of All Cases:** Offensive and defensive, at a consistent rate since 1995
- **Others also asking us to implement:** Legislative implementation still needed (Section 110, Section 211, Hot-Rolled Steel)

Enforcement

Creating and Using Tools

- **Bilateral Consultations**
 - EU Wine Agreement
 - China pre-loaded operating Software
- **FTA/WTO Negotiations**
 - Peru/Colombia FTAs – Beef, Poultry, IPR protection
 - Accessions (Vietnam, Russia, Ukraine)
- **Threaten/Bring WTO Case**
 - China Kraft Linerboard
 - China Semiconductors
- **WTO Cases brought to conclusion**
 - Mexico High Fructose Corn Syrup Tax
 - Mexico Telecom
 - EU Biotech

USTR has used all our tools to ensure China lives up to its commitments:

- Intellectual property: pre-loaded operating software JCCT consultation, semiconductor case settlement, kraft linerboard settlement, auto parts case panel, subsidies case consultations