

**Statement of
Robert B. Zoellick
U.S. Trade Representative
before the
Committee on Finance
of the
United States Senate
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Chairman Grassley, Senator Baucus, Members of the Finance Committee:

Introduction: The Challenge Ahead of Us

It is a pleasure to be with you again. I want to start by thanking all of you – from both parties – for the support and advice you have provided us, not only over the last year, but for the past three years.

Together we are accomplishing some important results for America.

Yet I know the benefits of trade are a subject of debate.

Consider this statement:

“With America’s high standard of living, we cannot successfully compete against foreign producers because of lower foreign wages and a lower cost of production.” Perhaps this pessimism sounds familiar. It could very well have come from one of today’s opponents of trade, arguing against a modern-day free trade agreement. But in fact these words were written by President Herbert Hoover in 1929, as he successfully urged Congress to pass the disastrous Smoot-Hawley Tariff Act that raised trade barriers, destroyed jobs, and deepened the Great Depression.

Today, as in the 1930s, trade can be a contentious subject. But as we learned 75 years ago, isolating America from the world is not the answer. We need to open markets for American companies to compete in the world economy, so we can create new jobs and build economic strength at home. When we work with the world effectively, America is economically stronger. Ninety-five percent of the world’s customers live outside our borders, and we need to open those markets for our manufacturers, our farmers and ranchers, and our service companies. Americans can compete with anybody — and succeed — when we have a fair chance to compete. Our goal is to open new markets and enforce existing agreements so that businesses, workers, and farmers can sell their goods and services around the world and consumers have good choices at lower prices.

Opening foreign markets to U.S. products and services is vital to economic growth, and an expanding economy is the key to better-paying jobs. U.S. exports accounted for about 25 percent of U.S. economic growth during the last decade and supported an estimated 12 million American jobs.

When the world's consumers fly in an airplane, boot up a computer or watch a movie, they are helping to employ Americans. And 6.4 million Americans have jobs working for foreign companies, building cars in Ohio, Kentucky, Tennessee, Alabama and South Carolina -- or processing mortgages in Minnesota or engineering software in California.

Although we have opened many markets, too many foreign countries still will not let us compete on an equal footing. They keep our products out, they illegally copy our technology, and they block us from providing services. We want to make sure our products and services get a fair chance to compete, and to be vigilant and active in enforcing our trade agreements so that American workers have a level playing field.

Recent U.S. trade agreements have cut hidden import taxes and saved every working family in America as much as \$2,000 a year, and our newest agreements could add more to these savings. Arguing for trade barriers is like arguing for a tax on single working moms, because that's who pays the most in import taxes as a percentage of household income. Our goal is to cut those hidden import taxes—while other countries cut theirs too—to give working families a boost.

At the same time, we need to help people manage change – particularly when it concerns jobs. Jobs not only provide for our families, they give us hope for a better tomorrow. Losing a job is hard, whether it is because of a recession, changing technology, or competition from another state or overseas. No matter the cause, it is important to help someone who loses a job to get back on his or her feet.

That's why Congress and the President tripled Trade Adjustment Assistance in the Trade Act of 2002. In 2003, this program provided some \$1.3 billion in support and retraining, with nearly 200,000 workers eligible for assistance.

That's why the President is focused on helping workers to learn new skills for the jobs of the future. His Jobs for the 21st Century initiative provides over \$500 million in new funding for education and job training, including \$250 for community colleges to provide workers job training and skill development.

And that's why the private sector has an important role too: Today American companies spend \$70 billion a year on worker education and training, and they will need to expand this investment in people for the future.

Some of today's opponents of trade, like those of yesteryear, want to retreat, to cut America off from the world. But we need to remember that what goes around, comes around: If we close America's markets, others will close their markets to America. And

the price of closing markets is larger than economic isolationists recognize. Over the last decade, trade helped to raise 140 million people out of poverty, spreading prosperity and peace to parts of the world that have seen too little of both. Americans will not prosper in a world where lives of destitution lead to societies without hope.

That's why President Bush's vision is of "a world that trades in freedom."

Strategic Overview

Three years ago, to support economic growth, an innovative America, development, and fair and open engagement with the world, the Bush Administration outlined a trade strategy for America. At the heart of our effort has been a plan to pursue reinforcing trade initiatives globally, regionally, and bilaterally. Through an ambitious trade agenda, the United States is working to secure the benefits of open markets for American families, farmers, workers, consumers and businesses. By pursuing multiple free trade initiatives, we are creating a "competition for liberalization" that provides leverage for openness in all negotiations, establishes models of success that can be used on many fronts, and develops a fresh dynamic that puts America in a leadership role.

This strategy is producing results.

With the able leadership of Chairman Grassley and Senator Baucus, as well as other members of this Committee, the President secured Congressional approval of the Trade Act of 2002.

The United States was instrumental in defining and launching a new round of global trade talks at the World Trade Organization (WTO) at Doha in late 2001. That same year we completed the unfinished business of China and Taiwan's entry into the WTO, working from the bilateral trade terms established by President Clinton, so as to establish a legal framework for expanding U.S. exports and integrating China's economy into a system of global rules. Also in 2001, the Administration worked with Congress to pass a Free Trade Agreement (FTA) with Jordan and a basic trade accord with Vietnam. After the 2000 election, President Clinton had announced an interest in FTAs with Singapore and Chile, and this Administration negotiated state-of-the-art accords in 2001-02 and gained Congressional approval in 2003.

A critical aspect of the Trade Act of 2002 was the renewal of the President's trade negotiating authority. In 2003 and early 2004, the Administration put that authority to good use, promoting global negotiations in the WTO, working toward a Free Trade Area of the Americas (FTAA), completing and winning Congressional approval of free trade agreements with Chile and Singapore, launching bilateral free trade negotiations with 14 more nations (concluding talks with seven of them), announcing its intention to begin free trade negotiations with six 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 Act, the African Growth and Opportunity Act, 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 available to U.S. workers to nearly \$6 billion over five years.

USTR, working closely with other federal agencies, works to make sure that our trading partners live up to their commitments. A significant amount of the day-to-day work of USTR is spent pressing foreign officials to abide by their trade obligations.

Just to give an example, successes over just the past few months include pushing China to certify biotech imports of U.S. soybeans, cotton, corn, and other products, getting China to open up its car financing market, urging the Philippines to permit direct access for U.S. telephone calls, pressing investment disputes with the Andean countries close to resolution, and reopening the Mexican market to U.S. beef.

We resolve most problems without resorting to formal dispute proceedings, which take additional time and involve uncertain outcomes. Most U.S. companies suggest formal dispute proceedings only as a last resort. When we determine it will be the most effective we to settle disputes, we pursue cases under the WTO, NAFTA, or our new FTAs.

In particular, we are devoting more enforcement resources to China. While U.S. exports to China support more jobs for American workers, we face a number of persistent problems that must be resolved. I spend a significant amount of my time addressing matters such as Chinese tax policies that disadvantage American exports of products as diverse as semi-conductors and fertilizer; rampant piracy of intellectual property rights; technical commercial standards that are drafted to exclude foreign economic participation -- such as on wireless encryption; among other concerns. Ensuring that these trade barriers do not stand is important to achieving the long-term benefits of China's WTO accession package: greater openness, adherence to the rule of law, and the institutionalization of market principles.

We recognize that enforcement of China's commitments requires sticks as well as carrots, and we are certainly willing to utilize the tools Congress has made available to us. These include the careful use of the China textile safeguard (which the Administration invoked for three product categories last December); anti-dumping laws; the product-specific safeguards; and WTO dispute settlement, an option that we may need to deploy very soon.

Pressing Forward in the WTO

At key points, the United States has offered crucial leadership to launch, prod, advance and reenergize the Doha Development Agenda, the global trade negotiations at the WTO. At the same time, we have emphasized that in a negotiation with 148 economies seeking consensus, others must also work constructively with us.

After the Doha launch, the United States proposed the elimination of all global tariffs on consumer and industrial goods by 2015, substantial cuts in farm tariffs and trade-distorting subsidies, and broad opening of services markets. We are the only major country to put forward ambitious proposals in all three core areas. These proposals reflect extensive consultations with Congress and the private sector.

In addition to laying the groundwork for bold market opening, the United States took the lead in resolving the contentious access-to-medicines issue in August 2003.

At the Cancun WTO meeting in September, however, some wanted to pocket our offers on agriculture, goods and services without opening their own markets, a position we will not accept. Since Cancun, I believe many countries have concluded the breakdown was a missed opportunity that serves none of our interests. That recognition is a useful starting point for getting the negotiations on track.

Only a few weeks after Cancun, more than twenty diverse APEC economies -- encouraged by the United States and joined by some of our free trade partners -- called for a resumption of WTO negotiations, using the draft Cancun text as a point of departure. In December, the WTO General Council completed its work for the year with an important report by its Chairman on the key issues that need to be addressed if the Doha Development Agenda is to move forward.

By late December, we sensed many WTO members were interested in getting back to the table, probably working from the draft text developed at Cancun. So in January I wrote a letter to all my WTO colleagues putting forward a number of "common sense" suggestions to move the Doha negotiations forward in 2004. I emphasized that the United States did not want 2004 to be a lost year. The letter suggested that progress this year will depend on the willingness of Members to focus on the core agenda of market access for agriculture, manufactured goods, and services.

In agriculture, we believe that WTO Members need to agree to eliminate agricultural export subsidies by a date certain, substantially decrease and harmonize levels of trade-distorting domestic support, and seek a substantial increase in real market access opportunities both in developed and major developing economies. The United States continues to stand by its 2002 proposal to set a goal of total elimination of trade-distorting agricultural subsidies and barriers to market access.

For manufactured goods, we are proposing that WTO Members pursue an ambitious tariff-cutting formula that includes sufficient flexibility so that the methodology will work for all economies. In addition to the tariff-cutting formula, sectoral zero-tariff initiatives need to be an integral part of the negotiations, perhaps using a “critical mass” approach to define participation – as in the successful Information Technology Agreement. We also underscored the need to develop specific plans to address non-tariff trade barriers effectively in the Doha negotiations.

In the important area of services, the United States suggested that Ministers press for meaningful services offers from a majority of WTO members, as well as make available technical assistance to help developing countries present offers. The services sector is an increasingly important part of economic development. More open services markets help provide the infrastructure for development. The sector also offers increasing opportunities for developed and developing countries to work together for mutual benefit.

Finally, we are asking that countries not permit the so-called “Singapore Issues” to be a distraction from our critical work on market access. We need to clear the decks. Based on extensive consultations in Africa and Asia, I believe we can move forward together on trade facilitation, which cuts needless delays and bureaucracy at borders and ports. I have urged my colleagues to drop the other topics.

The initial response to this initiative has been encouraging both from overseas and among domestic constituencies. To follow up the January letter, in February I traveled some 32,000 miles -- around and up and down the world – to meet with representatives of over 40 countries to hear their ideas and encourage their commitment.

I believe we are regaining some momentum, although the road ahead is marked by risks. Our ability to make notable progress by this summer depends principally, in my view, on two steps: one, reconciling the conundrum of the “Singapore Issues” by agreeing to focus solely on trade facilitation; and two, by concentrating on the draft agriculture text to see if we can agree on specific frameworks for reform. To secure movement on agriculture, all countries will need to agree to eliminate export subsidies, including the subsidy element of credit, to end State Trading Enterprise monopolies, and discipline food aid in a way that still permits countries to meet vital humanitarian needs.

Advancing Negotiations in the Free Trade Area of the Americas

Since taking office, the Administration has been working to transform years of general talks about a Free Trade Area of the Americas (FTAA) into a real initiative to open markets in the hemisphere, with a focus on first removing the barriers that most affect trade. The FTAA would be the largest free trade zone in the world, covering 800 million people with a combined gross domestic product of over \$13 trillion. It would expand U.S. access to Western Hemisphere markets, where tariff barriers are currently much higher than the trade-weighted U.S. average of 2 percent, and where non-tariff barriers

are abundant. Studies report that an average family of four would see an income gain, through greater purchasing power and higher income, of more than \$800 per year from goods and services liberalization in the FTAA.

At the Summit of the Americas in Quebec City in 2001, the United States started to lead the FTAA into a period of concrete market access negotiations. In February 2003, the Administration put forward -- on schedule -- its comprehensive and significant market access offers to FTAA partners in the areas of agriculture, industrial goods, services, investment, and government procurement. But others hesitated.

Therefore, in November 2003, at the FTAA Ministerial in Miami co-chaired by the United States and Brazil, we developed a pragmatic approach to match the different circumstances of the 34 nations of the hemisphere -- ranging from small Caribbean island states to the United States. We agreed to establish a common set of rights and obligations covering all nine areas under negotiation and that benefits would be commensurate with obligations undertaken. In addition, we agreed that nations that are prepared to go further could do so through plurilateral arrangements in some areas. This higher level of commitment -- and benefit -- creates incentives for countries to do more, without leaving others behind. The countries most likely to be ambitious are the ones that work with us on our gold-standard bilateral FTAs.

The FTAA will not be an easy negotiation, as this Committee knows. Yet we are committed to working creatively and flexibly with our hemispheric partners to achieve a long-held dream: the free flow of commerce throughout the Americas.

Spanning the Globe With Bilateral Free Trade Agreements

Miami also provided the venue for the announcement of several new U.S. bilateral free trade initiatives, demonstrating how our movement on multiple fronts can support our larger trade goals.

In 2003, the United States signed free trade agreements with Chile and Singapore, and those agreements won strong bipartisan majorities in Congress. These comprehensive, state-of-the-art FTAs set modern rules for 21st Century commerce and broke new ground in areas such as services, e-commerce, intellectual property protection, transparency and anti-corruption measures, and enforcement of environmental and labor laws to help ensure a level playing field for American workers. They also built on the experience of prior free trade agreements and will serve as useful models to advance other U.S. bilateral free trade initiatives in 2004.

In Latin America, for example, the long-sought FTA with Chile took effect on the tenth anniversary of NAFTA, and only two weeks after the Administration concluded a U.S.-Central America Free Trade Agreement (CAFTA) with El Salvador, Guatemala, Honduras, and Nicaragua. In January, we finalized CAFTA by resolving a few remaining issues with Costa Rica, and on February 20, the President notified Congress of

his intent to enter into that agreement. Meanwhile, we continue to work to integrate the Dominican Republic into CAFTA, and indeed this week we are conducting the third and, we hope, final round of negotiations with the Dominicans. CAFTA plus the Dominican Republic would create the second-largest U.S. export market in Latin America, behind only Mexico.

This spring the United States intends to launch new FTA negotiations with Panama, Colombia, and possibly Peru and Ecuador, while continuing preparatory work with Bolivia. Added together, the United States is on track to gain the benefits of free trade with more than two-thirds of the Western Hemisphere through state-of-the-art, comprehensive sub-regional and bilateral FTAs.

Just last month, we concluded a landmark free trade agreement between the United States and Australia. On February 13, President Bush notified Congress of his intent to enter into this “Manufacturing FTA:” Our terms with Australia will eliminate tariffs on more than 99 percent of U.S. manufactured goods exports to Australia on day one. Those exports account for 93 percent of total U.S. sales to Australia’s large market, and support 150,000 good-paying American jobs. In creating new export opportunities for America’s manufacturers, this deal will help a recovering sector of our economy while also expanding markets for America’s services firms, creative artists, and farmers.

With virtually all U.S. manufactured exports going duty-free immediately under this agreement, America’s manufacturers estimate they could sell \$2 billion more per year to Australia. They predict that U.S. national income would grow by nearly that much as well. Markets for services such as life insurance and express delivery will be opened, too; intellectual property will be better protected; U.S. investments will be facilitated; and American firms will be allowed to compete for Australia’s government purchases on a nondiscriminatory basis for the first time. All U.S. farm exports — more than \$400 million per year — will go duty-free to Australia, benefiting many sectors such as processed foods, fruits and vegetables, corn oil, and soybean oil.

In Southeast Asia and the Middle East, the President has announced initiatives to offer countries a step-by-step pathway to deeper trade and economic relationships with the United States. The Enterprise for ASEAN Initiative (EAI) and the blueprint for a Middle East Free Trade Area (MEFTA) both start by helping non-member countries to join the WTO, strengthening the global rules-based system. For some countries further along the path toward an open economy, the United States will negotiate Trade and Investment Framework Agreements (TIFAs) and Bilateral Investment Treaties (BITs). These customized arrangements can be employed to resolve trade and investment issues, to improve performance in areas such as intellectual property rights and customs enforcement, and to lay the groundwork for a possible FTA.

President Bush announced the Enterprise for ASEAN Initiative in October 2002. Significant progress was made in 2003, and the stage has been set for further achievements in 2004. With the newly enacted Singapore FTA to serve as a guidepost

for free trade with ASEAN nations, the President announced that he would begin negotiations for a comprehensive free trade agreement with Thailand in the second quarter of 2004, and on February 12th, we formally notified Congress of our intent to launch FTA negotiations with Thailand. At the Cancun WTO Ministerial last September, Cambodia was offered accession to the World Trade Organization, so it could take another step toward active participation in the global rules-based economy. Spurred by the progress of its neighbors, Vietnam is also working toward WTO membership, building on the foundation of a basic bilateral trade agreement with the United States that was enacted by Congress in 2001. The United States signed a bilateral trade agreement with Laos in 2003, and the Administration continues to support granting Normal Trade Relations (NTR) to Laos. The United States is using TIFAs with the Philippines, Indonesia, and Brunei to solve practical trade problems, build closer bilateral trade ties, and work toward possible FTAs.

The Middle East Free Trade Area initiative, announced by the President in May 2003, offers a similar pathway for the Maghreb, the Gulf states, and the Levant. In addition to helping reforming countries become WTO Members, the initiative will build on the FTAs with Jordan, Israel, and now Morocco; provide assistance to build trade capacity and expand trade so countries can benefit from integration into the global trading system; and will launch, in consultation with Congress, new bilateral free trade agreements with governments committed to high standards and comprehensive trade liberalization.

The U.S.-Jordan FTA entered into force in December 2001 after close bipartisan cooperation between the Administration and Congress. As a result, trade between the United States and Jordan has nearly tripled in only three years.

In 2003, the Administration launched free trade negotiations with Morocco, which we are pleased we completed just last week. Immediately upon the agreements entry into force, 95 percent of bilateral trade in industrial and consumer goods will become duty free, the best day-one tariff elimination in a U.S. free trade agreement with a developing country. Our terms with Morocco provide immediate cuts in Moroccan trade barriers to wheat, corn and soybeans, and new access for U.S. beef and poultry; openings for service providers like audiovisual, telecommunications, distribution, and engineering firms; and new opportunities for manufacturers of construction equipment, chemicals and information technology.

In January 2004, the United States began free trade negotiations with Bahrain. Last week Representatives Paul Ryan and Jim Turner launched a Congressional Bahrain Caucus backed by more than 20 other members of the House and Senate. The caucus will work with a Bahrain FTA business coalition representing firms ranging from heavy manufacturers and leading-edge technology companies to small businesses.

Morocco and Bahrain have been leaders in reforming their economies and political systems. Our market opening efforts with these two Arab states are part of the opening act in President Bush's Middle East Initiative, which is aimed at fostering prosperity, encouraging openness, and deepening economic and political reforms throughout the region.

In 2004, the United States will continue its efforts to bring Saudi Arabia into the WTO and will expand its network of TIFAs and BITs throughout the region. The United States now has ten TIFAs in the region, most recently signing agreements with Saudi Arabia, Kuwait, and Yemen. We plan to sign TIFAs with Qatar and the United Arab Emirates soon. As additional countries in the Middle East pursue free trade initiatives with the United States, the Administration will work to integrate these arrangements with the goal of creating a region-wide free trade area by 2013.

In Africa, the African Growth and Opportunity Act (AGOA) -- enacted in 2000 and expanded in 2002 -- has created tangible incentives for commercial and economic reform by providing enhanced access to the U.S. market for products from 37 eligible sub-Saharan nations. Enhancements made in 2002 to the African Growth and Opportunity Act improved access for imports from beneficiary sub-Saharan African countries. We look forward to working with Congress on legislation on AGOA that will accelerate its gains, including by extending provisions and enabling countries to take full advantage of AGOA through enhanced technical assistance.

To build on this success, as called for in the AGOA legislation, the United States launched FTA negotiations with the five countries of the Southern African Customs Union (SACU): Botswana, Lesotho, Namibia, South Africa, and Swaziland. The U.S.-SACU FTA will be a first-of-its-kind agreement with sub-Saharan Africa, building U.S. ties with the region even as it strengthens regional integration among the SACU nations.

The bilateral FTAs we have concluded or are pursuing constitute significant markets for the United States. U.S. goods exports to these countries were \$66.6 billion in 2003. This would have made them the third largest U.S. export market behind only Canada and Mexico, and ahead of Japan. The economies of these countries totaled \$2.5 trillion in 2002 at purchasing power parity exchange rates, which would rank them as the world's sixth largest economy. And most are developing countries that offer significant growth opportunities in years to come. We are laying free trade foundations for win-win economic ties between America and these partners.

Ensuring a Level Playing Field with China

Since China joined the WTO, it has become America's sixth-largest export market. U.S. exports to China grew 75 percent over the last three years, even as U.S. exports to the rest of the world declined because of slow global growth. China has become a major consumer of U.S. manufactured exports, such as electrical machinery, transportation and telecommunications equipment, numerous components, and chemicals. The market

share of U.S. service providers in China has also been increasing rapidly in many sectors. Meanwhile, growth in exports to China of agricultural products has been robust; for example, U.S. exports of soybeans reached an all-time high in 2003 of \$2.9 billion and cotton exports were \$733 million, up 431 percent over 2002.

In 2003, senior Administration officials met frequently with Chinese counterparts to address shortcomings in China's WTO compliance. We delivered a clear message: China must increase the openness of its market and treat U.S. goods and services fairly if support in the United States for an open market with China is to be sustained.

As a result, China has taken steps to correct systemic problems in its administration of the tariff-rate quota (TRQ) system for bulk agricultural commodities, and relaxed certain market constraints in soybeans and cotton trade, enabling U.S. exporters to achieve record prices and sales. Recent approval of biotech soybeans, cotton and corn -- and promised additional approvals -- has created greater certainty for U.S. exporters. China has also reduced capitalization requirements for financial services, including opening the motor vehicle financing sector.

China's large installment purchases of billions of dollars of U.S. products -- including Boeing 777s and 747s, GE and Pratt & Whitney aircraft engines, Ford and General Motors cars, as well as agricultural products -- during recent purchasing missions bode well for 2004. However, we continue to stress the need for structural change that ensures ongoing, open, and fair access -- not reliance on one-off sales.

In 2004, the Administration will concentrate on ensuring that: American intellectual property rights are protected; U.S. firms are not subject to discriminatory taxation; market access commitments in areas such as agriculture and financial services are fully met; standards are not used -- whether for technology or farm products -- to unfairly impede U.S. exports; China's trading regime operates transparently; and promises to grant trading and distribution rights are implemented fully and on time. The Administration will consult closely with Congress and interested U.S. stakeholders in continuing to press China for full WTO compliance, and will not hesitate to take action to enforce trade rules.

China's lax enforcement of intellectual property rights, including counterfeiting, is a fundamental issue. Piracy of movies, music and software is so rampant in China that the practices could subvert the development of knowledge industries and stifle innovation around the world. The scope and magnitude of the problem does not just threaten outsiders, but China's own citizens as well. Counterfeit automobile brakes, electrical switches, medicines and processed foods with pilfered brand names and poor quality control present health and safety risks throughout China. Premier Wen Jiabao has spoken of the importance of IPR and has assigned Vice Premier Wu Yi, a former trade minister who helped defuse the SARS crisis, to chair a working group on IPR enforcement. She will meet with Secretary Evans and me next month as part of our Joint Commission on Commerce and Trade.

In addition, China has adopted discriminatory tax policies – most blatantly on semiconductors -- and new wireless encryption standards intended to block U.S. market access. We are pressing China to resolve these disputes promptly.

At the end of this year China and the United States face another challenge. Our Uruguay Round commitments, ratified by Congress, required us to begin phasing out our textile and apparel quotas in 1995. That process will be completed at year's end. We have urged the Chinese to recognize concerns raised by this important transition. We are committed to using special safeguards, applying unfair trade laws, such as the anti-dumping provisions, and taking action under international trade rules if China falls short in its trade commitments.

Promoting a Cleaner Environment and Better Working Conditions

No country is doing more than the United States to push for strong labor and environmental provisions in international trade agreements. While some other countries talk about labor and the environment in the context of trade, only the United States is actually doing something to integrate these topics as an active part of its trade agenda. Following the negotiating objectives set forth by Congress in TPA, we are focused on combining effective enforcement with practical cooperation to improve labor and environmental conditions overseas. Our strategy varies depending on the countries we are negotiating with, because conditions vary and one size does not fit all. But in general, we have a ground-breaking, three-part approach:

- First, we often find that the issue with working or environmental conditions is not the laws on the books in developing countries, it is with the enforcement of those laws. So our FTAs require that countries effectively enforce their own labor and environmental laws, backed up by enforceable dispute settlement procedures.
- Second, we need to understand and address the reasons that laws are not being enforced. Often in poor countries, it is a resource question. Labor Ministries are often poorly funded, and there is a lack of money devoted to enforcement, inspections, and awareness of worker rights. To address this issue, we are pursuing a cooperative approach, working with U.S. AID, the Department of Labor, EPA, the State Department and others to focus on real-world problems, such as a lack of trained inspectors at Labor Ministries, the lack of awareness of employees of their rights under existing laws, and the need for education about child labor. We seek the help of American companies and NGOs, too. We work with the Multinational Development Banks to coordinate projects with them. The provisions in our trade agreements also encourage the development of local civil society, through public participation and transparency so that reforms can be sustained by homegrown efforts.

- Third, we want to cooperate with countries to improve their laws where there are gaps. Chile, for example, repealed its Pinochet-era labor laws during the course of negotiating the FTA with the United States because we took a firm but cooperative approach. Just recently, one of my staff returned from Guatemala with news that the government is working hard to reduce its backlog of worker-rights cases in its courts, because they know CAFTA is coming and they want to improve the climate for investment and trade. El Salvador has significantly expanded funding for its Labor Ministry, with monies targeted especially on inspection and enforcement. Morocco enacted a new Labor code that will take effect this year. These are just a few of the many examples where our combination of enforcement standards and cooperation is helping reform these societies.

Of course, free trade also helps developing countries grow, generating the resources for greater protection of workers' rights and the environment. Growing developing countries build a middle class that calls for better environmental and working conditions. Poor people also want better lives for their families. We will not improve their working conditions or environment by making it harder for them to sell the fruit of their labor.

We are putting this multi-faceted approach to trade and development into practice. The Chile and Singapore FTAs create the basis for cooperative projects to promote respect for international core labor standards and to support environmental protection and sound management of natural resources. Both agreements also require that parties effectively enforce their own environmental and labor laws.

The dispute settlement procedures of the new FTAs apply to all obligations of the agreements and set high standards for openness and transparency, such as 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.

The FTAs with the Central American countries, Morocco, and Australia adopt similar approaches to labor and environmental provisions, but are each tailored to fit individual circumstances. In Central America, for example, the Administration has emphasized trade capacity building projects to enhance the awareness and enforcement of labor laws. We encouraged countries to work with the International Labor Organization (ILO) to identify areas for improvement in labor laws and enforcement. The ILO study found that while the labor laws on the books were generally good, there were some gaps that needed to be addressed, and enforcement needed to be improved. The CAFTA partners are already responding to a number of these recommendations. We are assisting with trade-capacity building and cooperation to help. The fragile democracies of Central America are now looking to the Congress to see whether you will back their drive for self-improvement and reform.

Building New Bridges: Trade Capacity Building

The United States is the largest single-country donor of trade-related technical assistance in the world, reflecting its commitment to fostering developing countries full participation in the global trading system. As much as capacity building helps developing countries, it directly advances U.S. interests as well. Capacity building assistance both improves the quality of trade agreements, increases the ability of our trade partners to fulfill their commitments, and creates the conditions for expanding trade and development.

The U.S. resources from USAID and a dozen other agencies totaled more than \$2.5 billion in funding for trade capacity building activities (FY2000 through FY2003). The United States provided \$752 million in trade capacity building activities in FY2003, up 18 percent from FY2002.

In the CAFTA, FTAA, Morocco and SACU FTA negotiations, the United States has established separate cooperative groups on trade capacity building to define and identify priority needs for trade-related development assistance. The United States also seeks to give eligible countries the capacity to take advantage of preference programs such as AGOA. For example, U.S. technical assistance linked to AGOA assists eligible countries to develop AGOA export strategies, establish linkages with American businesses, and meet U.S. food safety and other standards.

Looking ahead, the Administration will continue to assist the developing world in integrating trade into development strategies. This will include working with multilateral institutions and private sector donors to promote initiatives such as the FTAA's Hemispheric Cooperation Program, and the WTO Technical Assistance Plan and the Integrated Framework. In our efforts in this hemisphere, the Inter-American Development Bank has done excellent work helping us to break new ground meshing trade and development policy by creating new mechanisms to meet the needs of developing countries. We hope to encourage the World Bank to demonstrate similar flexibility and responsiveness.

Helping developing countries understand the importance of trade in services is another role for capacity building. International Monetary Fund and World Bank reports show that efficiency in the production of services is a force multiplier in helping developing economies grow. Studies demonstrate that openness in financial services and technology alone has boosted economic growth rates in developing countries by 1.5 percent. Additional services like transportation, distribution, education, and health are of critical importance in developing countries, both for the emergence of a competitive businesses and, more broadly, for social development and poverty reduction. When developing countries open their services markets, the United States benefits, too.

As bilateral trade negotiations are concluded, the United States will continue to assist trading partners in implementing their commitments and managing their transition to free trade. The Administration will also continue to work with countries to maximize the benefits of preference programs such as AGOA, the Andean Trade Preference Act, the Caribbean Basin Partnership Act, and the Generalized System of Preferences.

In addition, the Bush Administration is emphasizing the important contributions that small businesses make to the U.S. and global economies. Small businesses are a powerful source of jobs and innovation at home and an engine of economic development abroad. By helping to build bridges between American small businesses and potential new trading partners, these enterprises can become an integral part of our larger trade capacity building strategy. In our continuing work with the U.S. Small Business Administration, our Office of Small Business Affairs at the Office of the United States Trade Representative has: increased small business representation in its advisory committee system; included previously excluded small business industry sectors in new trade agreements, such as the inclusion of recycled clothing in CAFTA; and focused on issues of special concern to small businesses, such as trade facilitation, e-commerce, and intellectual property rights protection. Ensuring that American small business concerns are addressed in our trade policy results in stronger agreements that help to create jobs at home and abroad.

Monitoring and Enforcing Trade Agreements

We take pride in the progress we are making to negotiate new commitments to open markets for American products and workers, but the bulk of the work done day-in and day-out at USTR is to ensure that countries live up to their current commitments or to solve problems for American businesses and workers.

Congress created USTR to assure that trade policy – including enforcement – was centrally located within the Executive Branch. We take USTR's enforcement mandate seriously.

The scope of enforcement extends well beyond the number of cases brought before WTO or NAFTA tribunals. On any given day, there is a steady stream of U.S. companies in the Winder Building working with us to figure out how best to press foreign governments to live up to their commitments to open up their markets to U.S. goods and services.

The vast majority of enforcement efforts by USTR 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 without bringing a WTO or NAFTA case, given the amount of time such cases take.

In recent years, informal means of resolving trade issues have enabled biotech farm exports and key U.S. financial services to expand their access to the Chinese market. Japan has agreed to lower customs fees by 50 percent as well as increase intellectual

property protections. Mexico has implemented rules for pharmaceuticals that respect U.S. patents, and Canada has dropped copyright legislation opposed by U.S. firms that use the internet. We solved pork, poultry, dry bean, and beef issues with Mexico. We increased access for poultry, pork, and beef in Russia. We addressed rice and motorcycle export problems and are improving IPR protection in Taiwan. We headed off Korea's attempt to close the market to Dodge Dakotas based on questionable tax classifications. We encouraged Hong Kong to clean up illegal production of optical discs. The list goes on and on.

But sometimes enforcement can only be achieved through litigation, and we stand prepared to bring WTO and NAFTA cases to secure compliance.

Some of our recent WTO victories include:

- An important case against Mexico on telecommunications worth \$500 million, according to industry. Under current law, Mexico allows its dominant company, Telmex, the exclusive authority to negotiate, on behalf of all carriers, the rate that U.S. telecom companies must pay to complete their calls in Mexico. These exorbitant rates penalize American and Mexican families seeking to maintain cross-border ties, raise the price of doing business across the border, and burden U.S. telecom firms with unnecessary costs.
- In December 2003, the United States won a major case before the WTO holding that Japan's import restrictions on U.S. apples are a violation of Japan's WTO obligations. Japan had argued that the restrictions were needed to protect Japanese plants from disease, but U.S. scientific evidence showed the apples could not transmit the disease. This is a valuable precedent against others that might use Sanitary/Phytosanitary Standards (SPS) to block farm products unfairly.
- The United States won an important victory in June 2003 when the WTO rejected India's challenge to U.S. laws on determining the country of origin of textile and apparel products.

We have pending cases against: the European Union's ban on new imports of genetically-modified foods and against the EU's over-reaching on Geographic Indicators; Mexico's questionable anti-dumping duties on beef and rice; Canada's discriminatory practices affecting wheat; and against Egypt's textile tariffs.

As noted earlier in my testimony, we are focusing more of our enforcement resources on China. While some of China's compliance problems were initially viewed as growing pains as it brought laws and regulations into line with new WTO obligations, China must do more to ensure that it is living up to obligations. Without more progress on matters we have been pressing with China, we will certainly need to avail ourselves of our rights under the WTO.

Of course, our ability to demand that others follow the trade rules is strengthened when we address cases we lose. We very much appreciate Chairman Grassley's and Senator Baucus' effort to repeal the FSC law to end retaliation against U.S. exporters, and we urge others to support their work. We also look to work with Congress to remedy other U.S. violations, including the Continued Dumping and Subsidy Offset Act of 2000, the 1916 Act (reflecting early antitrust practice), Section 211 of the Omnibus Appropriations Act of 1998 concerning conditions that permit the banning of trademark enforcement, and the ruling on hot-rolled steel. America should not be a scofflaw of international trade rules.

Conclusion

I want to close by again thanking the Committee for its support and guidance.

During 2004, we hope to continue to push forward step-by-step toward the vision set out by President Bush of "a world that trades in freedom." It is a vision of a world in which a working family can save money on everyday household items because trade agreements have cut hidden import taxes. It is a vision of a world in which an Iowa pork producer, a New York financial advisor, a Montana cattleman, an Illinois manufacturer of excavators, a Mississippi chicken farmer, or a California entertainer can sell his or her products or services in Costa Rica or Australia or Thailand or Morocco as well as across America. It is a vision of a world in which free trade opens minds as it opens markets, supporting democracy and encouraging tolerance. And it is a vision of a world in which hundreds of millions of people are lifted from poverty through economic growth fueled by trade.